

FINANCIAL REGULATION

Resolution regimes in Latin America

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Executive Summary:

In the past years, numerous regulatory measures have been adopted by authorities worldwide to ensure the stability of financial and banking services and to prevent another crisis on the scale of 2007-08. Among those proposals, the international standards “Key Attributes of Effective Resolution Regimes for Financial Institutions” (KAs)¹ agreed in 2011 by the Financial Stability Board (FSB) stand out. They comprise the fundamental elements to be included in an effective banking resolution regime. The objectives are i) to make a bank’s failure feasible, no matter its size, ii) to avoid it threatening the financial stability of a country or region and iii) to minimize to the maximum extent the recourse to taxpayers’ resources through bail-outs. All these need to be achieved while ensuring at the same time the continuity of the bank’s critical shared services and functions.

Regulatory authorities in major financial centres, especially those that were more affected by the recent crisis, have implemented various reforms to strengthen bank resolution procedures. Several regions have already adopted most of the principles of the FSB and their bank resolution frameworks are fully aligned with the KAs.

In the USA the Dodd-Frank Act of 2010, a monumental collection of regulatory reforms in the financial sector, contains a chapter on bank resolution. This framework is aligned to the KAs, although this law was signed before their publication.

In the EU, the Bank Recovery and Resolution Directive (BRRD), which was approved in 2014, sets out a common resolution compendium of rules and powers in order to prevent crises and to deal with failing banks in an orderly manner. Banks should be allowed to fail and private creditors must absorb their part of the losses.

Furthermore, Eurozone countries have established a Banking Union as a new institutional structure in order to harmonise the supervision (Single Supervisory Mechanism) and resolution (Single Resolution Mechanism) of their most important banks.

Latin America has ample experience in dealing with banking and financial crises, for example during the 1980s and 1990s. As a result of this, the laws of many countries in the region comprise detailed resolution regimes whose main goal is to deal with banking failures in an orderly way, preserving financial stability and avoiding bank runs. As opposed to Europe and the USA, Latin America has barely been affected by the recent financial crisis. As such, countries from this region do not feel the rush to implement regulatory reforms in this field. Currently, the majority of the resolution frameworks are very advanced although they are not fully aligned with the KAs.

The aim of this note is to analyse and describe the resolution regimes in Latin America and to compare their resolution tools to those of the KAs. Accordingly, this paper is divided into three chapters. The first will present a general explanation of the need for a crisis management framework. The main idea is to put an end to “too big to fail entities” (TBTF). The next section will focus on comparing the overall resolution tools in Latin America to those of the KAs. Countries in the region have ample tools to confront bank failures however they lack several resolution mechanisms such as the newly created bail-in tool. The last part will

1: See FSB: “Key attributes of Effective Resolution Regimes for Financial Institutions”

analyse in detail the legal framework of bank resolution in various relevant countries. Finally, as an annex, a table summarises the principal characteristics of the deposit guarantee schemes (DGS) and state deposit guarantees of several Latin American countries which were created to minimize bank runs. These mechanisms are currently funded with ex-ante contributions from banks and, in certain countries, cover deposits both in national and foreign currencies. Last but not least, the annex shows that DGS and State guarantees have been widely used during bank resolution episodes.

General overview of the need for a crisis management framework

The recent financial crisis and the subsequent collapse of a significant number of financial entities pointed out the need to improve existing bank resolution regimes. It is crucial to develop a sound framework in order to detect banks with difficulties in a pre-emptive manner, recover them or, if no other solution is found, resolve them. This is especially important in the case of global, large and complex entities. Failures of such institutions have greatly affected the financial stability of many countries, with dire consequences in terms of economic costs. Also, recent global bank crises have pointed out the enormous difficulties to coordinate the actions of authorities from different jurisdictions in order to resolve cross-border financial entities.

As a result of this, the crisis triggered a wave of new laws and regulations aimed at making banks safer and more resolvable without compromising global financial stability. Among others, one of the key objectives of the new rules is to put an end to bank bail-outs, avoiding the use of taxpayers' funds when a bank fails by forcing the shareholders and creditors of a failed entity to contribute to its recapitalisation burden. This can be achieved by implementing improved bank resolution frameworks that allow those entities to be resolved in a simple way, and that can also eliminate the moral hazard risk associated with TBTF entities.

In this regard, back in 2009, at the Pittsburgh Summit, the G20 leaders called on the FSB to propose measures to address the systemic and moral hazard risks associated with Systemically Important Financial Institutions (SIFIs). One year later, at the Seoul Summit in 2010, the "FSB framework for reducing the moral hazard posed by Systemically Important Financial Institutions" was endorsed. This framework addresses the TBTF issue by reducing the probability and impact of SIFIs failing. It comprises requirements for assessing the systemic importance of institutions, for demanding additional loss-absorbing capacity, for increased supervisory intensity and for more effective resolution mechanisms.

To this end, the G20 Heads of States and Governments endorsed in 2011² the KAs which were developed by the FSB as a new international regulatory standard. The main goal of the KAs is to set out the guidelines to achieve successful resolution processes. They contain twelve essential features that should be part of effective bank resolution regimes, covering all types of financial institutions including those of systemic size (see Figure 1).

2: On 15 October 2014, the FSB adopted additional guidance that elaborates on specific Key Attributes relating to information sharing for resolution purposes and sector-specific guidance that sets out how the Key Attributes should be applied for insurers, financial market infrastructures (FMIs) and the protection of client assets in resolution. The newly adopted guidance documents have been incorporated as annexes into the 2014 version of the Key Attributes document. No changes were made to the text of the twelve Key Attributes of October 2011.

Figure 1

Content of the FSB's Key Attributes

| | | | |
|---|-------------------------------------|----|---|
| 1 | Scope | 7 | Legal framework conditions |
| 2 | Resolution authority | 8 | Crisis Management Groups |
| 3 | Resolution powers | 9 | Cross Border Cooperation Agreements |
| 4 | Set-off, netting, collateralization | 10 | Resolvability Assessments |
| 5 | Safeguards | 11 | Recovery and Resolution planning |
| 6 | Funding of firms in resolution | 12 | Access to information and information sharing |

Providing robust alternatives, which allow financial institutions to fail safely, in a manner that protects financial stability and public funds

Source: BBVA Research

The implementation of these principles should allow authorities to resolve financial institutions in an orderly manner without using taxpayers' money, but maintaining the continuity of the institutions' critical shared services and functions.

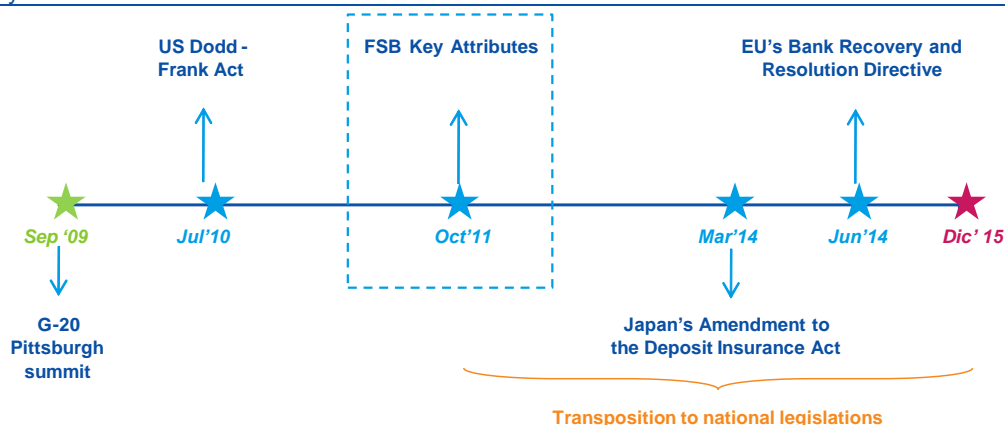
Resolution regimes already aligned with the FSB's Key Attributes

As a mandate of the G20, all FSB members have to carry out the necessary legislative reforms in their jurisdictions to implement the KAs by end 2015.

From a global perspective, regulators in major financial centers have achieved substantial progress in strengthening their resolution procedures. During the past few years, intense work has been carried out to enhance bank regulations and to adapt the KAs to national legislations. In this sense, the implementation of the KAs in many developed countries and regions such as the United States, the European Union and Japan is nearly complete.

Figure 2

The FSB's Key Attributes calendar



Source: BBVA Research

- In the **United States**, the resolution framework to deal with SIFIs was greatly improved with the enactment of Title I and Title II of the Dodd-Frank Act (DFA) in 2010. Title I requires all companies covered under it to prepare resolution plans or “Living Wills” to demonstrate how they would be resolved in a rapid and orderly manner under the Bankruptcy Code (or other applicable insolvency regime) in the event of material financial distress or failure. Concerning Title II, the so-called Orderly Liquidation Authority (OLA) allows a back-up authority to place a SIFI into a Federal Deposit Insurance Company (FDIC) receivership process. This is done if no viable private sector alternative is available, to prevent the default of the financial company and to avoid a bankruptcy process which would seriously affect financial stability. Thus, Title II provides the FDIC with the necessary tools to ensure a rapid and orderly resolution of a covered systemically important financial company.

In sum, this law is aligned with the KAs as it provides a detailed and comprehensive framework to resolve “systemically significant companies”, whose failure would pose a “significant risk to the financial stability of the US”.

- **European Union:** The Bank Recovery and Resolution Directive³ (BRRD) of 2014 implements the KAs into European law. Based on three pillars (preparation and prevention; early intervention; resolution powers and tools), this law provides all EU member states with a common framework for dealing with banking crises. The Directive ensures the continuity of the institution’s critical financial and economic functions, and, at the same time, minimizes the impact of a possible bank failure on the economy and on the financial system. As of the date of release of this document, the transposition of the BRRD into national law is not yet complete for all Member States⁴. However, its legal effects are already binding including the bail-in powers, which are mandatory since 1 January 2016.

The Single Resolution Mechanism (SRM), approved in spring 2014, is the natural complement of the BRRD in the Eurozone and with the Single Supervisory Mechanism (SSM) are the main foundations of the Banking Union. The SRM’s main purpose is to centralize bank resolution decisions and to facilitate the orderly resolution of a failing bank over a weekend, following unified criteria. Also, the SRM allows the possibility to resort to common (mutualized) private funds in those cases in which the bank’s own private resources are insufficient to cover the costs of the resolution process. To achieve this, the SRM will be established as a centralized system for bank resolution across the Eurozone, composed of the National Resolution Authorities (NRAs), a new Single Resolution Authority, the Single Resolution Board (which will have the ultimate decision-making power), a Single Resolution Fund and a single set of resolution rules (that are fully aligned with the BRRD).

- **Japan**, in 2014, amended the Deposit Insurance Act in order to align its bank resolution regime with that of the KAs. This reform establishes two special resolution regimes for failing institutions with systemic risk: Special Resolution Regime I for solvent banks to maintain operations and improve their financial conditions, and Special Resolution Regime II for insolvent institutions so that they can be liquidated in an orderly manner.

3: Directive 2014/59/EU of 12 June 2014

4: European Commission on 7 December

http://europa.eu/rapid/press-release_STATEMENT-15-6258_en.htm?locale=en

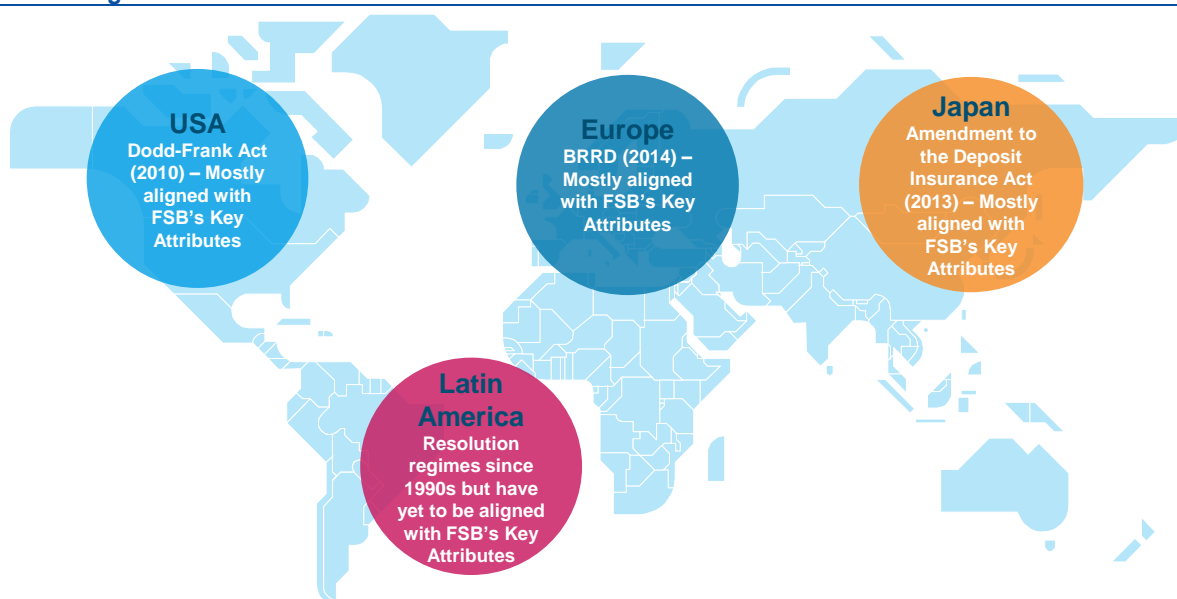
Figure 2
Regional resolution context

| Each jurisdiction is in a different resolution stage | | | | | |
|--|--|--|---|---|--|
| | Global | EU | USA | JAPAN | LATAM |
| Legislation | FSB Key Attributes | BRRD & SRM | Dodd – Frank Act | Special Resolution Regime I & II | Each country has different legislations |
| Main Features | Core elements for resolution regimes to ensure firms can fail in an orderly manner | <ul style="list-style-type: none"> • Cross border resolution plans • Bail-in tool • Single Resolution Mechanism • Single Resolution Fund | <ul style="list-style-type: none"> • Resolution plan • SIFIS: SPE & Bridge bank | <ul style="list-style-type: none"> • Recovery and Resolution regimes • Bail-in tool | <ul style="list-style-type: none"> • Deposit Guarantee Schemes • Clearly defined resolution procedures • Wide selection of resolution tools |

Source: BBVA Research

Other jurisdictions, such as those in Latin America, are still in the process of adopting reforms to their resolution regimes in order to adapt them to the KAs. In this region, different degrees in the implementation of the reforms exist. Indeed, some countries were more affected by the financial and banking crises of the 1980s and 1990s than others, and although legal structures were enhanced as a result of the economic turmoil, the development of resolution frameworks has not been homogeneous. Furthermore, three countries are members of the FSB (Argentina, Brazil and Mexico) and, as such, had an implicit commitment to adapt their resolution regimes to the KAs by the end of 2015 (as of today they still need to complete the corresponding legislative reforms).

Figure 3
Resolution regimes worldwide



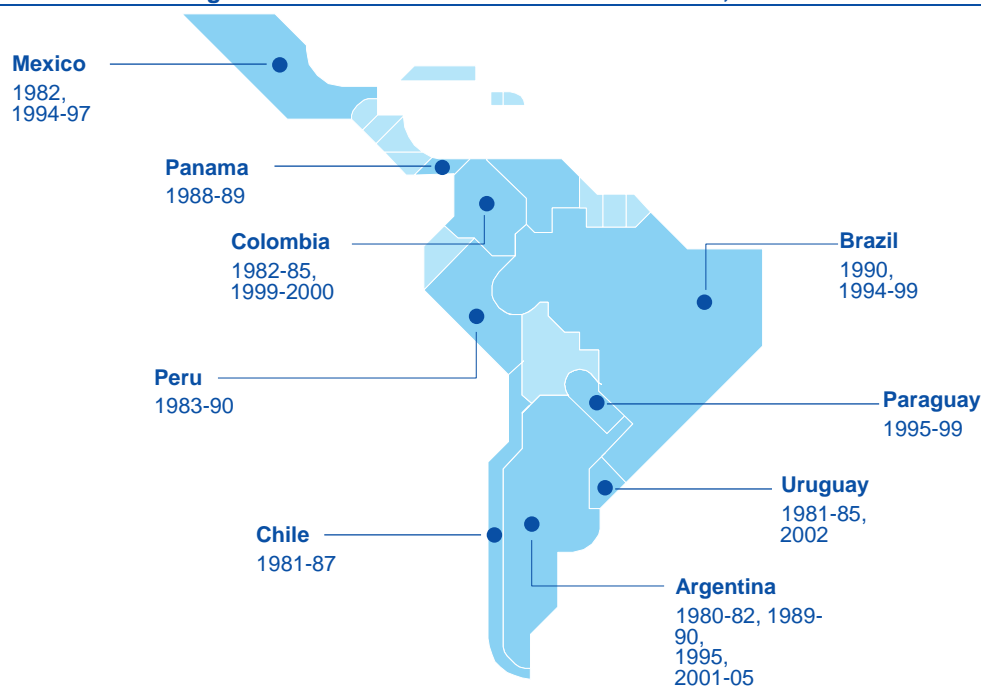
Source: BBVA Research

Alignment of resolution regimes to FSBs Key Attributes in Latin America

Latin America is a region that was characterised over several decades by the frequency, virulence and ease of contagion of financial and banking crises: the debt crisis in the early 1980s followed by a “lost decade”; the Mexican crisis in 1994 that spread throughout the entire region; Brazil in 1999 and especially Argentina in 2001 followed by a “tango effect” that affected some neighbouring countries (see Figure 4).

Figure 4

Dates and durations of banking crises in selected Latin American countries, 1980–2005



Note: Events were defined as crises if one of the following criteria was met: i) the ratio of non-performing assets to total assets in the banking system exceeded 10%; ii) the cost of the rescue operation was at least 2% of GDP; iii) large-scale nationalization of banks took place, and iv) extensive bank runs took place or emergency measures such as freezes, prolonged bank holidays or generalized deposit guarantees were enacted by the government in response to events.

Source: Demirgüç-Kunt and Detragiache (2005)

The severe economic disruptions created by the crises pushed authorities to introduce changes in banking regulation throughout the region.

Many Latin American countries set up different resolution regimes in response to the 1990s crises, ahead of other regions. Unlike the US and Europe, this region has shown remarkable resilience by avoiding the worst effects of the recent global crisis that started in 2008. Also, it is important to highlight that no Latin American bank has been included in the FSB list of Global Systemically Important Banks (G-SIBs). Even though no local G-SIB operates in Latin America, subsidiaries of foreign banks that belong to that category operate in the area. Accordingly, and although bank resolution in line with the KAs has yet to be implemented in many countries in the region, local subsidiaries of global GSIBs are already affected by home countries' resolution legislation, which raises potential level playing field issues. As members of the FSB, Argentina, Brazil, and Mexico were committed to full implementation by the end of 2015. As of today these countries have yet to finalize this process.

Among other new requisites, Latin American resolution regimes should implement the FSB's newly created mechanism: a resolution tool called “bail-in”. In clear opposition to the bail-out, its main purpose is to minimize the cost of bank resolutions for taxpayers. From now on, shareholders and creditors should bear much of the recapitalization burden of a failing bank.

Latin American countries could benefit from the following advantages if they were to align their bank resolution frameworks with the KAs:

- Enhance the credibility and stability of the region's financial system
- Avoid exposing public funds to loss
- Align the resolution framework with those of developed countries in order to share a level playing field in terms of bank resolution and to facilitate cooperation between different countries' banking supervisors and resolution authorities. This would be especially relevant for foreign G-SIBs independent subsidiaries that operate throughout the region.

In the next section, the resolution frameworks of ten countries that together represent almost 90% of Latin America's GDP will be analyzed and their resolution tools will be compared to those found in the KAs and in other regions. The primary source of information for this review was found in the national financial legislation of each country, as well as information gathered during several conversations held with national supervisors and authorities. Also, the review made use of available "reports" or guidance/review documents published by the FSB.

Overview of resolution frameworks in Latin America

Latin American regulators are currently analyzing and implementing powers and tools needed to resolve failing banks in an effective manner and in line with those proposed by the KAs. When reviewing the countries analyzed, this report shows that **few jurisdictions have in place resolution regimes that are fully compliant with the KAs** and that also provide adequate powers for resolving entities other than banks in the financial sector.

In general, the main objectives of the resolution regimes of Latin American countries are **to protect both depositors and critical bank functions**, to **preserve financial stability** and to **minimize taxpayers' contributions** in resolution processes or bail-outs.

Table 1
Resolution regimes in Latin America

| | EU | Argentina | Brazil | Chile | Colombia | Mexico | Panama | Paraguay | Peru | Uruguay |
|--|--|------------------------------------|------------------------|------------------------|---|-------------------------|------------------------|---|--|--------------------------|
| Scope | All financial entities in 28 Member States | All Financial Entities besides FMI | All Financial Entities | All Financial Entities | All Financial Entities | All Financial Entities | All Financial Entities | All Financial Entities | All Financial Entities | All Financial Entities |
| Resolution Authority (Central bank, supervisor or independent body) | Independent Body (SRB) | Central Bank (BCRA) | Central Bank (BCB) | Supervisor (SBIF) | Supervisor (SFC) and Independent body (FOGAFIN) | Independent Body (IPAB) | Supervisor (SBP) | Central Bank (BCP) + Independent bodies: Superintendencia and FDG | Supervisor (SBS) | Independent Body (COPAB) |
| Recovery Plan | Yes, bank | NO | NO | NO | NO | Yes, bank | NO | NO | NO | NO |
| Resolution plan | Yes, RA | NO | NO | NO | NO | Yes, RA | NO | NO | NO | NO |
| Trigger for resolution | Capital, Liquidity ratios | None (BCRA discretion) | None (BCB discretion) | Capital ratios | Capital, Liquidity ratios | Capital ratios | | Capital ratios | Capital ratios. Suspension of payments | None (BCU discretion) |
| Resolution Tools | Sale assets | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| | Bridge bank | ✓ | ✗ | ✗ | ✗ | ✗ | ✓ | ✓ | ✓ | ✗ |
| | Asset separation | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| | Liquidation | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| | Bail-out | ✗ | ✗ | ✓ | ✗ | ✗ | ✗ | ✓ | ✓ | ✗ |
| | Bail-in | ✓ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ |
| Resolution Fund | SRF | NO | NO | NO | NO | NO | NO | NO | NO | NO |
| DGS | National | SEDESA | FGC | State Guarantee | FOGAFIN & FOGACOOP | IPAB | Covered by law | FDG | FSD | COPAB |
| DGS cover in national currency converted to EUR | 100.000,00 | 33.000,00 | 65.000,00 | 3.800,00 | 6.000,00 | 119.000,00 | 8.800 | 22.000,00 | 26.000,00 | 24.500,00 |
| DGS cover in USD | NO | 36.000,00 | NO | N/A | NO | NO | N/A | ? | NO | 5.000,00 |
| DGS target | 0.8% | 5,00% | 2,00% | N/A | None so far | NO | N/A | 10,00% | NO | NO |
| DGS in resolution | YES | YES | YES | N/A | YES | YES | N/A | YES | YES | YES |

Source: BBVA Research

Table 1 (Continued)

Resolution regimes in Latin America (Continued) - Abbreviations

| | | | |
|-----------------|---|---------------|---|
| COPAB | Corporación de Protección del Ahorro Bancario | SBIF | Superintendencia Bancos e Instituciones Financieras |
| FDG | Fondo de Garantía de Depósitos | SBP | Superintendencia de Bancos de Panamá |
| FMI | Financial Market Infrastructure | SBS | Superintendencia de Banca y Seguros |
| FOGACOOP | Fondo de Garantías de Entidades Cooperativas | SEDESA | Seguro de Depósitos S.A |
| FOGAFIN | Fondo de Garantía de Instituciones Financieras | SFC | Superintendencia Financiera de Colombia |
| FSD | Fondo de Seguro de Depósitos | SRB | Single Resolution Board |
| IPAB | Institución para la Protección al Ahorro Bancario | SRF | Single Resolution Fund |

Source: BBVA Research

Because of their wide experience in dealing with banking crises, Latin American countries implemented resolution regimes in advance of other jurisdictions. These frameworks already incorporate many similarities with the KAs such as:

- **Resolution Authorities** with clear and independent mandates. This is a new concept introduced by the KAs, establishing that in order to avoid conflict of interest between the supervisory and resolution functions there must be clear and operational independence between the resolution and supervisory or other activities of the relevant authority, although the cooperation must be guaranteed. This clarifies the assignment of roles between different authorities but at the same time complicates the institutional architecture. The majority of the countries analyzed lack this structure and, currently, it is not clear if they are going to adopt it. These functions are usually carried out by independent bodies (IPAB in Mexico), by central banks (BCB in Brazil) or by banking supervisors (SBIF in Chile). Several countries have more than one authority in charge of bank resolutions, such as Colombia where both the SFC and the FOGAFIN have competences regarding resolution procedures.
- **Resolution tools and powers:** the KAs provide resolution authorities with the following resolution tools to deal with a failing institution, when the trigger conditions for resolution are met:
 - **Sale of business tool:** the sale of the whole bank or of parts of its businesses, on commercial terms, without the consent of shareholders or other procedural requirements.
 - **Bridge bank tool:** the transfer of all or part of the bank's business to a "bridge bank," which is wholly owned by a public authority (intended to be a temporary measure meanwhile a sale to the private sector is arranged).
 - **Asset separation tool:** the transfer of certain high-risk and/or non-performing assets of the bank to an asset management vehicle owned by a public authority. This tool must be used in conjunction with another resolution tool.
 - **Bail-in tool:** the write-down of the claims of unsecured creditors of a failing bank or the conversion of their debt claims into equity.

In Latin America, a wide selection of **resolution tools** such as sale of assets (100% of countries), bridge bank (40% of countries), asset separation (100% of countries), liquidation (100% of countries); even bail-outs are allowed by law in several countries (30% of countries). The exception is that of the bail-in mechanism. So far this tool is not part of any Latin American resolution regime. Nevertheless, G20 and FSB members (Argentina, Brazil and Mexico) are supposed to implement the KAs, which include this mechanism. Also, other countries which are not members of these international bodies, such as Colombia, are considering its implementation.

- **Use of Deposit Guarantee Schemes in the context of resolution:** 80% of the jurisdictions have a **deposit guarantee fund** with explicit coverage ranging from as low as the equivalent of EUR3,800 per deposit per person up to EUR119,000, with an average of around EUR30,000 (a higher amount than Europe's deposit guarantees before the crisis but lower than nowadays level, with current coverage standing at EUR100,000). Mexico is the most generous, covering up to the equivalent of approximately EUR119,000 in Mexican pesos. Most DGSs cover deposits in the national currency, but some of them cover deposits in foreign currencies also. For example, Uruguay covers deposits in pesos (equivalent of EUR24,500) and dollars (USD5,000). Also, some countries have several deposit guarantee funds that cover different types of financial institutions. Colombia has two funds: one for banks (FOGAFIN) and one for cooperative entities (FOGACOOB).

The exceptions are Chile and Panama, that do not host a deposit guarantee fund; nevertheless, the former has set up a deposit protection from the state and the latter protects deposits by law up to the limit set by the supervisory body (nowadays 10.000 balboas, which is the equivalent of EUR8,800).

Colombia was the first countries in Latin America to create deposit guarantee funds, in 1985. The date on which funds were set up in each country can be found in Figure 5.

In the annex, table A.1 summarizes the main characteristics of the deposit guarantee schemes and state deposit guarantees of several countries in the region. The current available amount of banks' ex-ante contributions ranges from 1.9% of total deposits to 23%. Another relevant finding is that Latin American countries exhibit a high level of dollarization, reaching up to 48% of total deposits from the private sector. In fact, many DGS/guarantees cover deposits both in national and in foreign currencies (although few would reimburse the deposits of a failed bank in foreign currency). All in all, the table shows that the DGSs/deposit guarantees have been one of the most important resolution tools used by authorities in Latin America and that they are likely to continue playing a relevant role in the future.

Figure 5

Date of establishment of deposit guarantee funds by country



Source: BBVA Research

- **Recovery Plans:** KAs require institutions to draw up recovery plans that set out arrangements and measures needed to enable them to take early action in order to restore their long term viability in the event of a material deterioration of their financial situation. The recovery plan represents the firm's complete "menu of options" for addressing extreme financial stress caused by internal or by external system-wide failures.

So far, only 10% of the Latin American countries analyzed require institutions to prepare them. Others are still in the planning phase. The importance of these plans is critical, because they enable early identification of a bank that is experiencing financial difficulties. If the failing institution is detected well before the situation reaches a point of non-viability, then resolution may not be required. Indeed, "it is preferable to recover a bank rather than resolve it"⁵.

5: Goodhart C. and Segoviano M. (2015), "Optimal Bank Recovery", IMF Working Paper WP/15/217

As for the differences, **most resolution regimes do not conform to the KAs in certain essential areas:**

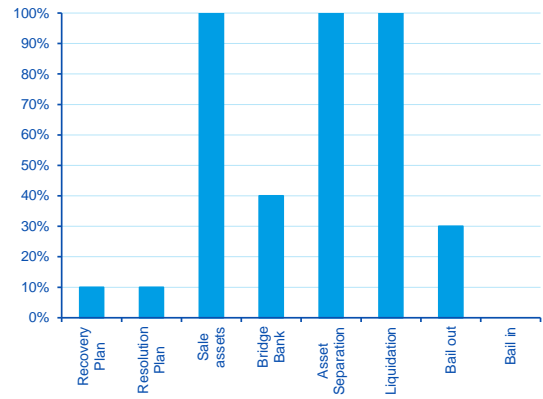
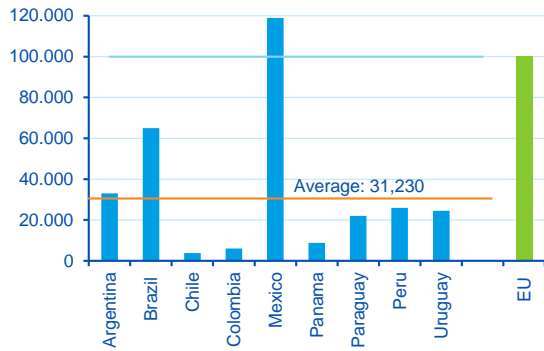
- Latin American countries have not yet implemented the **bail-in** resolution tool. This mechanism was introduced after the recent financial crisis in order to minimize bail-outs. Indeed, as mentioned above, in order to apply this tool, it is necessary that banks hold a minimum amount of eligible liabilities that can be legally, feasibly, effectively and operationally written down or converted into equity in case of a resolution. Brazil, Mexico and Argentina are likely to be the first countries to introduce this tool, but others are planning its implementation, such as Colombia. As a comparison, the FSB has recently published its international standard on Total Loss-Absorbing Capacity (TLAC) for G-SIBs. Europe implemented the bail-in tool, applicable to all banks, through its Minimum Requirement of own funds and Eligible Liabilities (MREL), included in the BRRD. And the US is currently analyzing a proposal by the Fed to implement the TLAC standard.
- So far, no **private resolution fund** has been put in place in the region. However this is an important device to enhance the availability of financial resources in a resolution process (to support institutions under resolution via loans, guarantees, asset purchases or capital for bridge banks) without the need to use taxpayers' money. Together with the DGS, it is also a very useful tool in order to minimize the occurrence of bank runs. In Europe, the Single Resolution Fund, which will merge the existing national resolution funds, made up with ex-ante contributions from financial entities, will start to be set up in 2016. In 2024 it is expected to reach 1% of total covered deposits of all banks in Member States participating in the Banking Union. The use of this fund in resolution is subject to the prior bail-in of at least 8% of total liabilities, including own funds.
- Another aspect that is missing from Latin American resolution regimes is that no jurisdiction (besides Mexico) requires the drawing up of **resolution plans**. Indeed, the resolution plan, which is prepared prior to entering a resolution procedure⁶, includes the strategy a firm needs to follow when it reaches the point of non-viability and once the recovery measures have failed. They should include a list of critical functions that a bank provides to the economy and whose continuity is essential, suitable resolution options depending on the firm's characteristics, potential impediments to resolution and actions to mitigate them, etc. Resolution plans are mandatory in the US, where the institutions have to prepare "Living Wills", and in Europe where the resolution authorities are in charge of their preparation.

For a summary of these findings see Table 2 below.

⁶: The laws of some countries, such as Panama, contain resolution or "reorganisation" plans. But those are drafted once the resolution process is started (art. 146 and 147 of Ley Bancaria).

Table 2

Coverage of DGSs (converted to EUR) and recovery and resolution tools in Latin America



Source: BBVA Research

An analysis of the resolution framework on a country-by country basis is presented in the following section.

Overview of resolution frameworks country by country



Argentina

| | | | |
|---|--|---|--|
| 1 | Legal Framework The Ley de Entidades Financieras of 1977 (amended several times, the latest reform dates from 2010) contains references to the resolution framework (title VII). | 2 | Scope The law applies to banks and other financial entities (art. 2). |
| 3 | Supervisory authority The Central Bank of Argentina (BCRA) supervises the financial activity through the intermediation of the Superintendencia de Entidades Financieras y Cambiarias. | 4 | Resolution authority BCRA is the resolution authority. |
| 5 | Triggers There are no explicit triggers; the BCRA has ample discretion to determine when to start the resolution process of a bank (art. 35 Ley de Entidades Financieras). | 6 | Resolution tools No bail-in tool. According to art. 35 of the Ley de Entidades Financieras the resolution tools are: reduction or increase of capital, sale of business and transfer and exclusion of assets and liabilities. According to art. 10 bis of Presidential Decree 540/95, SEDESA can capitalise or loan funds to a failing entity. |
| 7 | Deposit Guarantee Scheme The DGS has been run by SEDESA since 1995 (Ley 24.458), a privately administered fund made up of ex-ante contributions from financial institutions. Its coverage is for up to 350,000 pesos (around EUR33,000) per deposit. Its target level is 5% of the total deposits. | 8 | Resolution Fund None |

Observations



Brazil

| | | | |
|---|--|---|--|
| 1 | <p>Legal Framework</p> <p>The bank resolution framework can be found in the Law No. 6.024 of 1974 and Decree Law (amended several times since that date). A new banking resolution law has been drafted, and is currently being discussed by the Congress.</p> | 2 | <p>Scope</p> <p>The legal framework applies to all financial institutions. However it is not clear if foreign banks with offices in Brazil are covered. Non-financial entities owned by financial entities are not covered.</p> |
| 3 | <p>Supervisory authority</p> <p>Created in 1964 (Law 4.594 of 1964), the Banco Central do Brasil (BCB), which is a federal agency, is the supervisor of the financial system. The BCB is responsible for the supervision of: commercial banks, multiple banks, exchange banks, development banks, investment banks, the Federal Savings Bank and credit/finance investment societies.</p> | 4 | <p>Resolution authority</p> <p>The BCB is also responsible for the resolution of failed banks as well as brokers, dealers, leasing, finance, savings and mortgage companies, credit unions and saving associations.</p> |
| 5 | <p>Triggers</p> <p>There are no explicit triggers; the BCB has ample discretion to determine when to start the resolution process of a bank (in order to preserve the integrity of the financial system, regardless of a deterioration of assets or liquidity).</p> | 6 | <p>Resolution tools</p> <p>So far, the bail-in tool is not part of the Brazilian resolution framework. However, there are other tools available for bank resolution processes, such as: asset separation, transfers of assets and liabilities, bail-outs (with a special legal authorisation), intervention, etc.</p> <p>There are three types of special resolution regimes:</p> <p>Temporary Special Administration Regime (Decree Law 2321/1987): to mitigate systemic risk and to preserve the institution's operations as usual, especially its critical functions.</p> <p>Intervention (Law 6024/1974 and Decree Law 2321/1987): to identify the actual economic, financial and operational condition of the institution and to evaluate the possibility of its operational continuity. Regular operations are interrupted</p> <p>Extra-judicial liquidation (Law 6024/1974 and Decree Law 2321/1987): interrupts banks' regular activities. Its main objective is to sell assets in order to pay creditors. It may lead to ordinary liquidation or to bankruptcy.</p> <p>The senior managers of the financial institution under resolution are removed in any of these three special regimes and a new administration is appointed by the BCB with broad management powers, including resolution powers to promote reorganisation of the institution, under previous authorisation by the BCB.</p> |
| 7 | <p>Deposit Guarantee Scheme</p> <p>The Fondo Garantidor de Creditos (FGC) is a privately administered entity created in 1995 and that covers deposits up to 250.000 reales (approximately EUR65,000). Brazil is one of the few countries that have set an explicit coverage target: 2% of the total insured deposits. The FGC is funded ex-ante by the financial institutions.</p> | 8 | <p>Resolution Fund</p> <p>None</p> |

Observations

According to BCB's presentation at the FSB Regional Consultative Group for Americas the BCB is conducting studies to update the Brazilian resolution framework with a new law expected to be published at the end of 2015. There are plans to adjust the current resolution framework by including the bail-in and bridge bank tools, requiring D-SIBs to draft recovery plans, setting up specific resolution plans for D-SIBs and generic ones for other institutions and assessing resolvability of supervised institutions in licensing and supervision processes.

It is worth mentioning that Brazil hosts several G-SIBs and that it is one of the only countries that have so far signed a Cross-border Cooperation Agreement (COAG) with Spain and the United Kingdom, the other two members of the Crisis Management Group (CMG) for the Santander Group.



Chile

| | | | |
|----------|--|----------|---|
| 1 | <p>Legal Framework</p> <p>The resolution framework is to be found in the Chilean General Banking Act (Ley General de Bancos), title XV articles 24 and 118-153.</p> | 2 | <p>Scope</p> <p>The law applies to banks and other financial entities (art. 2).</p> |
| 3 | <p>Supervisory authority</p> <p>The supervisory authority is the Superintendencia de Bancos e Instituciones Financieras de Chile (SBIF).</p> | 4 | <p>Resolution authority</p> <p>The supervisor, SBIF, is also the resolution authority in Chile. The superintendent, in coordination with the Chilean central bank, can declare the resolution of a bank.</p> |
| 5 | <p>Triggers</p> <p>According to art. 118 of the Ley General de Bancos the “facts that raise fears about an entity’s financial situation” are: basic capital (after deducting losses) below 3%, total capital ratio below 8% triggers the preventive capitalisation of a bank.</p> <p>According to art. 122 of the Ley General de Bancos the “solvency problems that endanger an entity’s payment of its obligations” are: basic capital (after deducting losses) below 2%, total capital ratio below 5% triggers the creditors agreement phase.</p> <p>But it is the SBIF that determines when a bank needs to be liquidated: whenever it establishes that “the bank does not have enough solvency to continue operating” (art. 130).</p> | 6 | <p>Resolution tools</p> <p>There is no bail-in mechanism in Chile so far. However several tools exist such as: transfer of assets and liabilities to another institution and forced mergers or acquisitions.</p> |
| 7 | <p>Deposit Guarantee Scheme</p> <p>There is no specific fund created in order to guarantee the deposits. However, the central bank provides a guarantee for current accounts (art. 132). Furthermore, according to articles 144-153 the state guarantees 90% of households’ deposits up to a limit of 120 “Unidades de fomento” (approximately 3 million pesos or EUR3,800).</p> | 8 | <p>Resolution Fund</p> <p>None</p> |

Observations

According to the General Banking Act there are three resolution mechanisms:

- Preventive capitalisation (Capitalización preventiva): banks which do not meet the above-mentioned triggers, including a total capital ratio of at least 8%, have 30 days to seek a capital increase.
- Creditors agreement (Acuerdo con acreedores): If the preventative capitalisation fails and the total capital ratio falls below 5%, the bank has 10 days to negotiate a solution with its debtors (excluding preferred creditors, depositors and current account holders). The options, among the list in art. 123 are: to convert debt into equity and to extend the corresponding maturities.
- Finally if all else fails, a mandatory liquidation is triggered (Liquidación forzosa).

A reform of the General Banking Act is currently under discussion to include, among other things, more resolution tools such as the bridge bank mechanism.



Colombia

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|---|---|---|--|
| 1 | <p>Legal Framework</p> <p>The Estatuto Organico del Sistema Financiero, EOSF, of 1993 (as amended several times by Ley 510 of 1999 and Ley 1328 of 2009) provides the basis for, among other topics, supervision and resolution (liquidation) of financial entities.</p> | 2 | <p>Scope</p> <p>According to articles 1 to 5 of the EOSF, the law applies to all credit institutions and insurance companies in Colombia.</p> |
| 3 | <p>Supervisory authority</p> <p>The supervision of the financial system is provided by the Superintendencia Financiera de Colombia (SFC) which is ascribed to the National Treasury (Ministerio de Hacienda y Crédito Público).</p> | 4 | <p>Resolution authority</p> <p>The resolution authorities are the SFC and the Fondo de Garantías de Instituciones Financieras (FOGAFIN), an autonomous government administered organism created in 1985 and that is in charge, among other things, of managing the national Deposit Guarantee Scheme (art. 318-320 EOSF).</p> |
| 5 | <p>Triggers</p> <p>The takeover triggering events are determined by the SFC and include, among others: non-compliance with minimum capital requirements, net worth reduced below 50% of subscribed capital, etc. (articles 113-114 of EOSF).</p> | 6 | <p>Resolution tools</p> <p>Excluding the bail-in mechanism, Colombian authorities have at their disposal a wide array of resolution tools that they have effectively applied in the past, such as: imposing mergers and acquisitions, sale of business, capital injections, transfer of assets and liabilities, etc. One interesting fact in the Colombian resolution framework is that the process is different depending on the level of systemic risk of the failing bank: FOGAFIN is authorised to directly inject funds (guarantees, loans or nationalisation) to recapitalise a failing or likely to fail entity⁷.</p> |
| 7 | <p>Deposit Guarantee Scheme</p> <p>There are two DGS in Colombia: FOGAFIN and FOGACOOOP (banks and cooperatives/rural banks respectively). The coverage is 20 million Colombian pesos (around EUR 6,000) per deposit.</p> | 8 | <p>Resolution Fund</p> <p>None. However Fogafin, as the manager of the Deposit Insurance, has ample attributions during a resolution process, as it may use its reserves to nationalize troubled banks, buy assets, issue guarantees, and issue loans.</p> |

Observations

The objectives of the Colombian resolution framework are: to protect depositors, to protect the payment system and to minimise bail-outs. Colombia has enacted a procedure called “takeover and administrative mandatory liquidation” (toma de posesión y liquidación forzosa administrativa) in regards to the financial entities supervised by the SFC. This procedure can be found in articles 114-117 and 290-302 of the EOSF and in Part 9 of the Decree 2555 of 2010. An institution may be intervened in by the SFC with the previous approval of its advisory board and with the authorisation of the National Treasury. The SFC will have two months to determine whether liquidating it, recovering it or applying other measures will result in better conditions for the depositors and investors (art. 115 and 116 of EOSF). If the liquidation process is chosen, FOGAFIN will monitor it and will designate a public agent who will be in charge of the process.

There are two resolution procedures: i) “banco abierto” (FOGAFIN is the resolution authority): for entities whose failure represents a threat to the payments systems. Depending on the degree of insolvency, FOGAFIN may take it over if that is necessary to safeguard the economic stability, and ii) “banco cerrado” (SFC is the resolution authority): applied to failed banks for which no private solution has been found, providing that they do not represent a threat to the payment systems. This process is done either through the purchase of assets and transfer of liabilities (so far this mechanism has not been applied) or by liquidating the bank.

Colombia experienced a severe banking crisis in 1999 that was caused, among other factors, by a substantial increase in credit especially in the mortgage sector. Several financial entities collapsed and many others had to be recapitalised through bail-outs. During the crisis, FOGAFIN had an active role. Among other measures, the authority took over Interbanco that was later merged with Compañía de Financiamiento Comercial Aliadas creating Banco Aliadas as a result. Another entity that was nationalised by FOGAFIN was Granahorrar. Three small entities were taken over and then liquidated: Pacífico, Andino and Selfin⁸.

Colombia is not a member of the FSB and, as such, does not have an implicit obligation of compliance with the KAs by end 2015. However it is in the process of evaluating the implementation of recovery plans (required by either SFC or FOGAFIN) and several resolution tools such as the bridge bank and bail-in mechanisms. The Committee for the Security of the Financial System (SFC. FOGAFIN, Banco de la República with the participation of the Finance Minister) will be responsible for defining a road-map to implement the reforms to the resolution framework.

7: <https://www.fogafin.gov.co/default/que-es-fogafin/principales-actividades/mecanismos-de-resoluci%C3%B3n>

8 “Banking Institutions in Colombia, consequence of a constant movement in Banking sector”, A. M. Mora Cuartas, M. Serna Rodríguez, N. Serna Rodríguez



Mexico

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|---|---|---|--|
| 1 | <p>Legal Framework The banking supervisory and resolution framework can be found in the Ley de Instituciones de Crédito from 1990 (amended several times after that date, the latest reform being in January 2014).</p> | 2 | <p>Scope Article 2 of the Ley de Instituciones de Crédito states that the law only applies to banks (insurance companies aren't covered).</p> |
| 3 | <p>Supervisory authority The Comisión Nacional Bancaria y de Valores (CNBV) is the authority in charge of bank supervision. It is a public agency ascribed to the Secretariat of Finance and Public Credit with technical autonomy and executive powers over the Mexican financial system. The Central Bank has supervisory faculties over certain topics, such as payment systems.</p> | 4 | <p>Resolution authority The resolution and liquidation of banks are administered by the Instituto para la Protección del Ahorro Bancario (IPAB) an independent government administered organism created in 1999. It is also the bank savings protection institute and runs the national DGS.</p> |
| 5 | <p>Triggers If the capital ratio of an entity is below 10%, the CNBV can start to apply corrective measures. If the ratio falls below the 8% limit, the IPAB can start a resolution process. If the entity is non-systemic, it can be liquidated through a procedure called "Liquidación Judicial Bancaria". If the financial authorities determine that the bank is systemic, it can receive financial support in order to keep its operations running.</p> | 6 | <p>Resolution tools Although Mexico is part of the G20, it has not yet implemented the bail-in tool. However the law recognises several resolution tools such as transfer of assets and liabilities to another institution, power to take control of an entity, or the creation of a bridge bank administered by the IPAB. According to the FSB's Thematic Review on Resolution Regimes of 11 April 2013, the IPAB may override shareholder rights without court involvement.</p> |
| 7 | <p>Deposit Guarantee Scheme Run by the IPAB it covers up to 400.000 "Investment Units" which as of today correspond to roughly 2.1 million Mexican pesos (or EUR119,000). The contributions to this fund are made ex-ante by the financial institutions based on the size of their liabilities.</p> | 8 | <p>Resolution Fund None</p> |

Observations

In 1994 Mexico suffered a profound financial and banking crisis. As a result, twelve banks were intervened in or liquidated by the IPAB (Banca Unión, Pronorte, Cremi, Obrero, etc.). All other banks had to receive financial support in order to stay in business.

Mexico is not the home authority of any G-SIBs, but is host authority of twelve banks which are subsidiaries of a G-SIB.

The CNBV has powers to require recovery plans to banks (art. 119 of the Ley de Instituciones de Crédito requires banks to develop a "contingency plan"), IPAB has powers to require the necessary information for the development of resolution plans.

In Mexico there is a Constitutional remedy called "Amparo". Its reform in 2013 provides that a resolution process cannot be suspended and judicial review may either reverse a resolution action or grant financial compensation if reversal is impossible or excessively burdensome⁹.

Mexico has fully participated in the CMGs of three G-SIFIs, and has subscribed one specific Cooperation Agreement.

Additionally, Mexico, through the banking supervisor (CNBV), has also signed several MoUs to facilitate cooperation and exchange of information between authorities¹⁰. (PRESENTATION "KEY ATTRIBUTES OF EFFECTIVE RESOLUTION REGIMES AND THE FINANCIAL REFORM IN MEXICO")

In the field of regulation, the financial reform approved last year, provides rules for the authorities to manage the resolution or liquidation of banks in cases of liquidity squeezes and insolvency. The specifics cover lending of last resort with equity shares as collateral, bank contingency plans for adverse scenarios, and ring-fencing actions, for example, in the case of majority shareholder problems. In addition to the liquidation regime, the legislation contemplates a mechanism for prompt corrective actions, as well as a resolution regime.

Also, an expedient bank judicial liquidation process, separated from the Bankruptcy Law, and a legal framework for transfer of assets and liabilities are established.

Another very important addition to the Ley de Instituciones de Crédito is article 241 that introduces a specific creditor hierarchy in the case of a bank liquidation process.

9: FSB, Towards full implementation of the FSB Key Attributes of Effective Resolution Regimes for Financial Institutions, 12 November 2014

10: Presentation "Key Attributes of effective resolution regimes and the financial reform in Mexico



Panama

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|---|--|---|---|
| 1 | Legal Framework The Ley Bancaria of 1970 (as amended several times, the last reform being enacted through Decreto Ley 2 of 2008). | 2 | Scope The law applies to banks and to other non-bank non-financial entities affiliated to banks (art. 1). |
| 3 | Supervisory authority Created in 1998, the Superintendencia de Bancos (SBP), an autonomous and independent body, regulates and supervises the financial activity of banks, their business and other entities and activities assigned by any other laws (art. 4). | 4 | Resolution authority The resolution authority is also the supervisor, that is, the SBP. |
| 5 | Triggers According to art. 132, there are several triggers for resolution. The SBC has also discretion to intervene a bank when it determines that its capital and/or liquidity position is sufficiently deteriorated. | 6 | Resolution tools The resolution tools are to be found in articles 145 and 146 of the Ley Bancaria, under the "reorganisation" section. The person in charge of this process, who is nominated by the SBC can: write down capital instruments, nominate new administrators, force M&A operations, sale assets and recommend its liquidation. |
| 7 | Deposit Guarantee Scheme Panama has not established a deposit guarantee fund, however, according to art. 167, deposits up to 10,000 balboas (equivalent to EUR8,800) are covered by law. | 8 | Resolution Fund None |

Observations

The resolution framework of banks in Panama is found in the Ley Bancaria in chapter XV (corrective measures), XVI (administrative and operating take over), XVII (reorganisation) and XVIII (forced liquidation). During the resolution process the SBP has ample discretion to; nominate an adviser to review the possible corrective measures to apply, to take over a bank, to appoint a person in charge of the reorganisation process and to liquidate the bank.



Paraguay

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|---|---|---|--|
| 1 | <p>Legal Framework</p> <p>The legal framework can be found in Ley 861 "General de Bancos, financieras y otras entidades de crédito", which was enacted in 1996. In 2003, Paraguay was engaged in a profound financial reform by passing Ley 2.334 "De Garantía de Depósitos y Resolución de Entidades de Intermediación Financiera". The latter regulates the resolution regime in replacement of the relevant chapters of the former.</p> | 2 | <p>Scope</p> <p>The law applies to Banks and other financial entities (art. 1 of Law 861/96)</p> |
| 3 | <p>Supervisory authority</p> <p>The Paraguayan financial system is supervised by the Superintendencia de Bancos, which belongs to the Central Bank of Paraguay (BCP).</p> | 4 | <p>Resolution authority</p> <p>The BCP, through the Superintendencia de Bancos and the Fondo de Garantía de Depósitos (FGD) are the resolution authorities.</p> |
| 5 | <p>Triggers</p> <p>According to arts. 6 and 7 of Law 2.334, two steps are contemplated: regularisation and resolution. The regularisation process is triggered whenever the banks and financial entities incur in the situations stated in art. 6 of the aforementioned law, i.e. reduction of the solvency index below the minimum requirement, whenever a bank needs to access lender of last resort facilities provided by the BCP, etc. Furthermore, the bank or financial entity must submit a recovery plan to the Superintendencia de Bancos. This authority will determine if the proposed plans suffice. If the outcome is positive, the bank will have 90 days to comply with the requirements stated in the plan. If the irregularities are not rectified, the central bank shall initiate the resolution process. The objective of the resolution process is to separate the good assets and to liquidate the remaining ones. As soon as the resolution process starts the BCP reimburses the depositors with funds from the FGD. Following that the FGD manages the sale of the remaining assets.</p> | 6 | <p>Resolution tools</p> <p>Bridge bank and sales and mergers.</p> |
| 7 | <p>Deposit Guarantee Scheme</p> <p>Created by Law 2.334, the FGD is administered by the BCP. Its funds are both public and private. It covers deposits in foreign currencies. The coverage is up to 75 monthly minimum wages, that is, around 137 million guaranies (approximately EUR22,000). The fund target ratio is determined by Law 2.334 at 10% of total deposits.</p> | 8 | <p>Resolution Fund</p> <p>None</p> |

Observations

The FGD is undertaking and coordinating initiatives with other members of the financial safety net, in order to protect consumers and to monitor and promote financial stability. Such efforts include the improvement of an Early Warning System and performing micro and macro stress-testing.



Peru

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|---|--|---|--|
| 1 | <p>Legal Framework Ley General del Sistema Financiero y del Sistema de Seguros y Orgánica de la Superintendencia de banca y seguros (LGSF) of 1996. The latest reform was in 2012.</p> | 2 | <p>Scope The law applies to all credit institutions and insurance companies.</p> |
| 3 | <p>Supervisory authority The Superintendencia de Banca y Seguros (SBS) is the supervisory authority for the entities of the financial system, including the insurance companies.</p> | 4 | <p>Resolution authority The SBS is the resolution authority.</p> |
| 5 | <p>Triggers The LGSF mentions three types of intervention regimes: a) Art. 95 lays down the conditions in order to submit an entity to the surveillance regime. These conditions are: i) failure to comply with reserve requirements; ii) use of the credit support of the central bank for a period of time, and iii) violations of individual or aggregate limits which reveal improper conduct of business, among other causes. b) Art. 104 of the Law lays down the conditions in order to initiate an intervention of an entity by the SBS. The conditions for intervention are: a) when an institution suspends payment of its obligations, b) when the ratio of capital divided by risk weighted assets is below 5% (art. 199), c) when the bank does not comply with the obligations stated in the recovery plan or d) when the reduction of own funds is greater than 50% during a twelve month period. c) Art. 114 lays down the conditions to dissolve and liquidate a financial entity: i) failure of the intervention regime, and ii) if the reasons set out in the Ley General de Sociedades are met.</p> | 6 | <p>Resolution tools No bail-in tool. The SBS has the authority to assess the patrimony and to net the losses against the legal and facultative reserves or against the capital; and to transfer (totally or partially) the assets and liabilities as provided by law.</p> |
| 7 | <p>Deposit Guarantee Scheme Created in 1991, the privately-government administered Fondo de Seguro de Depósitos (FSD) is the national DGS in Peru. For the period of Sept. – Nov. 2015 it covers deposits in national or foreign currency up to 95,324 soles per deposit (approximately EUR26,000)¹¹ and it is financed ex-ante by the financial institutions. The coverage is updated every three months by the SBS.</p> | 8 | <p>Resolution Fund None</p> |

Observations

The SBS has intervened in several resolution processes of various financial entities. The most recent case was in June 2015 when the SBS had to resolve Caja Rural Señor de Luren. The resolution authority had to apply the transfer of assets and liabilities tool, with the Caja Municipal de Arequipa being the successful bidder. In order to facilitate the transfer, the SBS asked the FSD to make a cash contribution of 79.5 million soles¹².

¹¹ <http://www.fsd.org.pe/paginas/06-monto-maximo.html>

¹² <http://www.fsd.org.pe/paginas/09-Casos.html>



Uruguay

| | | | |
|---|---|---|--|
| 1 | <p>Legal Framework Ley de Intermediación Financiera approved in 1982 by Decree-Law 15.322 and amended in 1992 with Ley 16.327 and in 2002 with Ley 17.523.</p> | 2 | <p>Scope The law applies to Banks and other financial entities.</p> |
| 3 | <p>Supervisory authority The supervision of the Uruguayan financial system is done by the Superintendencia de Servicios Financieros which was created in 2008 and is part of the Central Bank of Uruguay (BCU).</p> | 4 | <p>Resolution authority Created in 2008, the Corporación de Protección del Ahorro Bancario (COPAB) is an independent body in charge of guaranteeing the deposits and is also in charge of banking resolutions processes (previous to that date it was the BCU's role to resolve banks).</p> |
| 5 | <p>Triggers Art. 40 of Ley 18.401, Carta Orgánica del BCU states that the governing body of the BCU can declare the resolution process of a bank whenever it considers that an entity is failing and no recovery is possible. The COPAB will be in charge of the resolution process which entails the replacement of the management board with an appointed auditing commission and the suspension of the activities of the failing institution. If the COPAB cannot apply any resolution tool during the 120 days following the start of the resolution process then it can propose the BCU to start of a normal liquidation process.</p> | 6 | <p>Resolution tools According to article 16 i) and 41 of Ley 18.401, Carta Orgánica del BCU, the COPAB can partially or totally exclude assets and liabilities, transfer assets and liabilities to another entity and liquidate an entity through the creation of ad-hoc liquidation funds¹³ created with the failed entity's assets and liabilities. This type of liquidation is different from a normal judicial liquidation procedure. According to the law, the principle of No Creditor Worse Off than in liquidation must be respected at all times.</p> |
| 7 | <p>Deposit Guarantee Scheme Run by the COPAB, the Fondo de Garantía de Depósitos Bancarios (FGDB) covers up to the equivalent of 5.000 USD of deposits denominated in foreign currencies and up to 250.000 Unidades Indexadas (approximately 795,000 pesos or EUR24.500) per deposit in Uruguayan pesos. The FGDB can participate in the resolution process of a bank by providing resources to create one or more business units that can be transferred to other financial entities. This transfer can be done directly or indirectly through the use of financial vehicles such as ad-hoc created funds.</p> | 8 | <p>Resolution Fund None</p> |

Observations

Currently there are three open resolution processes: Banco de Montevideo, Banco Comercial and Banco La Caja Obrera. The Nuevo Banco Comercial, using the above-mentioned resolution tools, acquired the best assets from the three failed banks, and savers were able to recover a large proportion of their money. The management of the remaining toxic assets was assigned to a company specialised in recovering distressed loans¹⁴.

13: Fondos de Recuperación de Patrimonio Bancario (FRPB)

14: "Mecanismos de resolución bancaria e intervención temprana en Uruguay", José Antonio Licandro

Annex

Table A.1

Characteristics of Deposit Guarantee Schemes/State Deposit Guarantees

| | Argentina | Brazil | Chile | Colombia | Paraguay | Peru | Uruguay | |
|---|--|--|---------------|-----------------|---|--|---|---|
| 1. Current available amount of ex-ante contributions | National currency. Millions | 22.085.000,00 | 21.852.000,00 | 25.848.000,00 | 45.592.640,00 | 2.254.176 | 1.335 | 421.1us\$ |
| | as a % of total deposits from the private sector as of 31/8/15 | 2,5 | 1,2 | 23,0 | 14,3 | 3,2 | 1,9 | 1,5 |
| 2. Level of dollarization | as a % of total deposits from the private sector | 9,6 | 0 | 3,08 | Not available | 47,7 | 29,0 | 79,7 |
| | Is the coverage the same for deposits in national and foreign currencies? | Yes, up to ARS 350,000 independently of the number of account holders | No | Yes | No | Yes | Yes | No. For deposits in national currency the guarantee covers up to UI250,000 (approx. EUR24,500) per account holder and institution and for deposits in foreign currencies it covers up to USD5,000 |
| | Are measures being taken to limit the level of dollarization? | No | No | No | No | No | Yes | No. But the difference in coverage in national or foreign currency can be considered as an implicit measure |
| 3. Utilisation of the DGS | Can it be used to recapitalize entities? | Yes | Yes | Not available | No | No | Yes but only if the financial institution is systemically important and if no private solution is available | No |
| | Has it been used recently during a banking crisis? | No. However, it was used to cover the recent Treasury deficit: in August 2015 the regulation was amended and up to 96% of the Fund can be invested in national public debt instruments | Yes | No | Yes. During the crisis of 1998-2001 Fogafin paid for the deposits of 16 entities that were liquidated by the Superintendencia Financiera de Colombia later on | In 2015 the DGS was used to cover the deposits when the Central Bank decided to liquidate a small financial entity (Ara S.A. de Finanzas). | In the past years the DGS has been used to cover the deposits of two small entities that were liquidated | No. It was set up after the last crisis in 2002 |

Continued on the next page

Table A.1 (cont.)

Characteristics of Deposit Guarantee Schemes/State Deposit Guarantees (continued)

| | Argentina | Brazil | Chile | Colombia | Paraguay | Peru | Uruguay | |
|-----------------------------|---|--|----------------|--|--------------------------------------|---------------|---------|--|
| 4. Stock of deposits | Does the local regulation allow its use in order to absorb losses? | No | In general, no | Yes | No | No | No | |
| | Amount not covered | Demand deposits and savings deposits over ARS 350,000. This represents approximately 55% of total deposits in the private sector | 45% | Demand deposits' coverage: 100%. Term deposits in CLP enjoy a guarantee of 90% of the outstanding amount but with a limit of 108 UF per account holder (which must be a natural person) (around 25,000 CLP or 3,800 EUR) The coverage of deposits in USD is 4,000 per account holder (which must be a natural person) is 686.95 USD | Up to 20 mn pesos per account holder | 41.087.742 | 130.084 | Deposits over the coverage level |
| | Amount of deposits covered from large companies | Not available | Not available | The guarantee is only available for natural persons | Up to 20 mn pesos | Not available | 90.589 | Not available |
| | Massive withdrawals of deposits | Yes. The last one was during the crisis of 2001/2002 | No | At the end of 2009 the withdrawals reached 1% of the stock of deposits in national currency Withdrawals of deposits in foreign currency have tend to be larger (around 10% during periods of financial stress) | No | No | No | In the 2002 crisis but the DGS was not set up at that moment |

Source: BBVA Research

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