CONSULTATION ON EBA/CP/2014/39 ON “DRAFT GUIDELINES ON THE RATE OF CONVERSION OF DEBT TO EQUITY IN BAIL-IN”

General Comments and Reply to Question

BY THE EBA BANKING STAKEHOLDER GROUP
London, February 5, 2015
Foreword

The EBA Banking Stakeholder Group (“BSG”) welcomes the opportunity to comment on the Consultation Paper 2014/39 “Draft Guidelines on the rate of conversion of debt to equity in bail-in”.

This response has been prepared on the basis of comments circulated and shared among the BSG members and the BSG’s Technical Working Group on Recovery and Resolution.

As in the past, the BSG supports an initiative that aims at harmonizing supervisory rules and practices across Europe, in order to ensure fair conditions of competition between institutions and more efficiency for cross-border groups. The BSG also expects these initiatives to facilitate data sharing between European supervisors and avoid reporting duplications for banks.

This response outlines some general comments by the BSG, as well as our answer to the question indicated in the Consultation Paper.

General comments

The two guiding principles set out in the consultation paper for determining conversion rates of debt to equity in bail-in are (1) no creditor worse off, and (2) respect of creditor hierarchy. In BSG’s view these are indeed the key criteria in the bail-in procedures as prescribed by the BRRD.

Beyond these general criteria the setting of conversion rates is predominantly driven by the ex ante valuation to take the decision on applying a bail-in and the ex ante insolvency valuation to determine what each class of shareholder and creditor would have been expected to receive under normal
insolvency procedures. This highlights the importance of the Consultation Paper EBA CP/2014/38 where the criteria for the methodology are outlined. The guidelines set out in this Consultation Paper will only be as effective in meeting its goals as the underlying ex ante valuation and ex ante insolvency valuations are. We refer to the respective comments of the BSG to that Consultation Paper.

BSG would also like to point out that one complexity in the case of cross-border groups that remains unsolved in this context of resolution is that insolvency law and procedure are national and not harmonized across the European Union. This affects primarily the ex ante insolvency valuation and decisions based on it.

Replies to Questions

1. Do you agree that the Guiding Principles are sufficiently comprehensive? Would you add to or amend the description of how they should be applied?

We do regard the Guiding Principles as sufficiently comprehensive and would not amend the description of how they should be applied.

Submitted on behalf of the EBA Banking Stakeholder Group

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