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EDITOR'S NOTE: INNOVATION
Victoria Prussen Spears

TO SUPPORT PAYMENTS INNOVATION, AVOID UNNECESSARY REGULATION
John R. Gardner

CYBERSECURITY AND OTHER RISKS: OCC OUTLINES KEY EXAMINATION AREAS FOR 2016
Travis P. Nelson

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES PROPOSES REGULATIONS TO ENHANCE ANTI-MONEY LAUNDERING AND SANCTIONS COMPLIANCE FOR FINANCIAL INSTITUTIONS
Alan W. Avery and Pia Naib

CHANGES NEEDED TO PROTECT THE BANKING AND FINANCIAL SERVICES SECTOR WHEN DEALING WITH THE MEDICAL MARIJUANA INDUSTRY—PART III
Moises Gali-Velazquez

CREDITOR PARTICIPATION IN THE RECAPITALIZATION OF THE GREEK BANKING SYSTEM—PART II
Yiannis Bazinas and Yiannis Sakkas

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Creditor Participation in the Recapitalization of the Greek Banking System—Part II

Yiannis Bazinas and Yiannis Sakkas*

In December 2015, the third phase of the Greek banking system recapitalizations was concluded. Unlike the first round of recapitalizations in 2013, this recent series of transactions featured a higher degree of creditor participation. By evaluating the legal aspects of the process and by focusing on the framework of bank resolution in the EU, this two-part article will analyze the transition from public bailouts to creditor bail-ins and demonstrate the importance of a full European Banking Union in achieving a creditor-oriented bank resolution framework. The first part of this article, which appeared in the March 2016 issue of The Banking Law Journal, *discussed the first round of bank recapitalizations, developments in European financial regulation, and the recent recapitalizations. This second part examines creditor participation in the bank capitalizations, public bailouts and creditor bail-ins, and the role of the banking union in fostering creditor participation.*

CREDITOR PARTICIPATION IN THE BANK RECAPITALIZATIONS

The Liability Management Exercises

The new legal framework soon proved to be efficient not just in ensuring mandatory creditor participation but also in encouraging voluntary negotiations between the banks and their creditors. The threat of "mandatory burden sharing" served as the necessary stick that the banks could wield in order to persuade their creditors to suffer losses. This became apparent when all four core banks launched their liability management exercises ("LME"), starting in October 2015. The term LME refers to a number of different balance sheet restructuring approaches that may involve such transactions as redemptions of shares, bond repurchases, debt-to-debt exchange offers or debt-to-equity exchanges. In the case of Greek banks the form propagated was that of a voluntary debt-for-equity exchange addressed to subordinated, hybrid and senior bondholders, as was used in the previous years by a number of European

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banks.[50] As the total value of subordinated, hybrid and senior bonds outstanding on the banks' balance sheets was around 3.3bn EUR it was evident that only part of the capital gap could be covered in this way; yet any form of non-public financial assistance was welcome.

The terms of the offers were spelled out in the banks' respective proposals and offer memoranda. The bondholders that would agree to tender their shares would eventually receive new shares, to be issued in the subsequent capital share increase, for a consideration ranging from 50 percent to 100 percent of nominal value. Piraeus and Alpha also offered cash exchanges albeit at significantly lower consideration thereby favoring the debt-to-equity exchange.[51] These exchange offers proved highly effective in achieving creditor participation in the restructuring of the banking system. More specifically, banks managed to raise 3bn EUR in total; Alpha raised 1bn EUR, Eurobank 430mn, while Piraeus and NBG both raised around 600mn EUR. To put this into perspective, it translates to nearly 90 percent of all bondholders agreeing to tender their securities. As mentioned above, the reason behind this very high participation rate was the threat of "mandatory burden sharing" envisaged by Law 3864/2010. Since bondholders were facing the threat of a mandatory bail-in, the terms of which were unknown to them at the time, they instead decided to agree to the terms set out in the exchange offers and receive common shares. The cost of uncertainty was therefore the main drive behind the success of these transactions. This proved for the first time that a framework involving mandatory creditor participation may facilitate voluntary transactions.

The HFSF's Participation

Following the success of the liability management exercises, the four core banks prepared for the capital share increases in an effort to exhaust all private capital generating measures. The plan to be followed was in some degree similar to the one adopted in 2013 as new shares would first be offered to private investors, in Greece and abroad, with the HFSF serving as the "backup investor" and subscribing to the capital share increase for the remaining amount. A necessary and vital part of this process however was the approval by the European Commission Directorate General for Competition ("DGCom") of the banks' restructuring plans. The goal of this review was to confirm that the banks had not received any form of assistance that constitutes "state aid," in

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[50] Most notably Santander in 2012. "Bank funding: Banks turn to LME to meet capital shortfalls," last modified June 2012, *available at* http://www.euromoney.com/Article/2962053/Bank-funding-Banks-turn-to-LME-to-meet-capital-shortfalls.html?p=1©rightInfo=true.

[51] Relevant information can be found in the banks' offer memoranda available online.

violation of EU treaties. For credit institutions that require public financial assistance, the EC DGCom has to make an additional determination, namely that the credit institution is not failing or likely to fail according to Article 32 of the BRRD. This provision states that a credit institution requesting extraordinary public financial support is considered to be "failing or likely to fail" except if that support is provided in a form of state guarantee to back liquidity provided by the central bank, a guarantee of newly issued shares or an injection of own funds or purchase of capital instruments *"at prices and on terms that do not confer an advantage upon the institution (prudential recapitalization).*"[52] The law thereby clearly states that if the public financial contribution is offered in any other form, then the credit institution is not eligible to receive public aid and will have to be led into resolution according to Law 4335/2015 Art. 2.

In accordance with the above provisions and in order to ensure the Fund's participation on equal prices and terms, Law 3864/2010 stipulates that the HFSF will provide financial assistance to credit institutions by submitting ESM notes and by receiving in exchange common non-restricted shares and contingent convertible securities ("CoCos"). The new amended legal framework envisages a much stronger role for CoCos. Cabinet Act Number 36/02.11.2015 Art. 2 specified that any capital assistance provided by the Fund would be allocated as 25 percent in common shares and 75 percent in the form of CoCos. The banks were thereby not given the free reign to choose the cheaper option that was afforded to them under the previous regime but were obliged to issue CoCos under any circumstances. These securities were specified be perpetual in duration and have a nominal value of 100,000 EUR. Furthermore, they would carry a higher interest rate of eight percent per annum, to be paid at the end of each year. However, a single failure to meet interest payments would not constitute a conversion event. Conversion would also be linked to the bank's capital adequacy ratios, with a reduction of the credit institution's CET1 ratio below seven percent serving as the conversion trigger. Again the banks were given the opportunity to redeem their CoCos provided that they received the approval of the EU commission and also redeemed higher ranking creditors. Lastly and for the first time, provision was made for transferring CoCos to third parties; such transfer would require the consent of the credit institution (which could not refuse to provide it without cause) and of the relevant supervisory authority.

The fact that public financial assistance would now have to entail the issuance of these costly securities, which could also end up in the hands of

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[52] Directive 2014/59/EU Article 32 par. 4(d)(iii).

unknown third parties, prompted all four banks to make a strong appeal to private investors. However, Greek Company Law[53] provides that existing shareholders have a statutory pre-emption right in new stock issuances, which can only be waived by a majority vote of the general assembly.[54] Fearing that such a pre-emption right might discourage new private investors from subscribing, the banks' shareholders voted in favor of setting aside their subscription privileges. This cancellation of rights essentially predicated that pre-existing shareholders, including the HFSF as majority shareholder, would be severely (if not totally) diluted and would thereby bear the bulk of the losses incurred by the banking system during the past 1.5 years. By foregoing their legal pre-emption right, the banks' shareholders were in reality allowing new investors to acquire majority stakes in the banks in exchange for a fraction of the value that they had invested during the first recapitalization. Even though such a waiver by the HFSF is expressly provided in Law 3864/2010,[55] the severity of its losses would raise a lot of questions about the efficiency of its past contributions to the banking system.

The Full Re-Privatization of the Banking System

Under these circumstances, Alpha and Eurobank were particularly successful in attracting private capital by raising 2.7bn EUR and 2bn EUR respectively and achieving oversubscription of their book building exercises. As a result, the majority holdings in both of these banks ended up in the hands of private investors while the HFSF's share dropped to 11 percent in Alpha and 2.38 percent in Eurobank.[56] NBG and Piraeus on the other hand, as bigger and more vulnerable banks, encountered more difficulties in meeting the targets prescribed by the ECB's comprehensive assessment. NBG eventually managed to raise 700mn EUR private and institutional investors in Greece and abroad, thereby covering the baseline scenario (1.6bn EUR), as did Piraeus, which managed to issue 1.34bn EUR worth of stock. Even then however both NBG and Piraeus fell about 2.6bn EUR short of the prescribed target of 4.6bn EUR and 4.93bn EUR respectively. Public financial assistance was therefore eventually provided by the HFSF in the dual way prescribed by Cabinet Act Number 36/02.11.2015; NBG issued 670mn EUR worth of new common stock and

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[53] Law 2190/1920 Art. 13(7),(8),(9).

[54] Law 2190/1920 Art. 13 (10).

[55] Law Number 3864/2010 Art. 8 (3): "The Fund may reduce its holdings in credit institutions by . . . waiving or transferring the preemptive rights that relate to it."

[56] Information regarding the banks' capital structure is published on their respective Web sites.

2.1bn EUR worth of CoCos to the HFSF, while Piraeus proceeded along the same path and issued 680mn EUR worth of shares and 2bn EUR worth of contingent convertible bonds. Due in part to the high volume of the CoCos, the HFSF's share dropped significantly in the two banks, currently standing at 26 percent in Piraeus and 24 percent in NBG.

Private investors did not just acquire majority stakes in Greek banks; they also acquired them under more favorable terms than the HFSF had in 2013. The 2015 recapitalizations were soon combined with an important reform in the field of non-performing loans. Law 4354/2015,[57] adopted soon after the formal end of the recapitalizations, provides for the first time an off-balance sheet solution to the issue of non-performing loans. The problems faced by Greek credit institutions in the aftermath of the successful recapitalizations were indeed very pressing. The solution provided by the new legislation was to allow banks to either assign the management of NPLs to Debt Management Companies or transfer the loans directly to Debt Transfer Companies.[58] These companies will be licensed and supervised by the Bank of Greece and will be entitled to pursue the fulfillment of their claims with all necessary measures provided by Greek legislation.[59] These Companies are also allowed to provide new loans to non-performing debtors to help them re-finance their obligations.[60] The law also makes it easy to incorporate such companies by requiring a minimum capital of 100,000 EUR.[61] This legislation represents a key component in the field of private debt management and, if proved efficient in practice, may be valuable in the banks' efforts to dispose of their toxic assets. If banks manage to keep the NPL rates stable and dispose of a substantial amount of existing NPLs, then the strain on the banking system is very likely to loosen over time.

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[57] Law 4354/2015 (State Gazette A'176/18.12.2015) available online in English at http://www.bazinas.com/_uploads/c3f413925345eb7c234cf72f03d98346.pdf.

[58] Law 4354/2015 (State Gazette A'176/18.12.2015) Art. 1 par. 1 Consumer loans as well as mortgage loans, having a mortgage on the debtor's primary residence, are exempted from transfer until Feb 16, 2016. Law 4354/2015 (State Gazette A'176/18.12.2015) Art. 3 par. 9.

[59] The introduction of this new legislation has been combined with the termination of force of the provisions that prohibited the commencement or continuation of enforcement proceedings (Joint Ministerial Decision 49214/21.7.2015) as well as the provisions that prohibited the auction of primary residences seized as collateral from borrowers by credit institutions (Law Number 3869/2010).

[60] Law 4354/2015 (State Gazette A'176/18.12.2015) Art. 1 par. 20.

[61] Law 4354/2015 (State Gazette A'176/18.12.2015) Art. 1 par. 15 (1).

FROM PUBLIC BAILOUTS TO CREDITOR BAIL-INS

The End of Bailouts

The completion of this lengthy and exhausting new round of recapitalization leaves a distinct impact on the Greek banking system. Banks are once again part of the private sector and have reduced the HFSF to minority stakes. This however has come at a heavy cost for taxpayers. In 2013 the HFSF contributed 25bn EUR in order to acquire a majority stake of 85 percent in Greece's four systemic banks. In 2015, private investors managed to dilute the HFSF to 19 percent ownership (with miniscule ownership in Alpha and Eurobank), by providing less than 10bn EUR. Owing to the severe depreciation of the banks' assets, these holdings are now estimated to be worth 2.1 bn EUR in the stock market. If one considers the additional 14bn EUR provided in 2013 to cover the funding gap of non-systemic banks, the cumulative losses suffered by the HFSF, and hence by the Greek taxpayer, now stand at 37bn EUR or 97 percent of the original investment. These massive losses for the taxpayer cannot of course be attributed to a single factor. As discussed above, the recapitalizations of 2013 had strengthened the banks' capital ratios but had left all the toxic assets on their balance sheets. When the country's economic prospects deteriorated and the market value of banks rapidly declined, the HFSF was the first to incur losses, since it was the only shareholder that was not allowed, by its mandate, to walk away. As a result, the political and economic developments in the country and the series of events that followed the referendum proclamation in the summer of 2015 placed multiple pressures on the banks and, as the downward spiral continued, that resulted in severe losses for the Greek taxpayers.

The failure of 2013 and the immense cost to the Greek public budget signifies in the most extreme and stark manner the end of bailouts as we know them in the European Union. The final round of Greek recapitalizations represents an important and probably permanent shift in the way European policymakers view and deal with broken banking systems across the European Union. This shift can be described as a transition from bailouts to bail-ins, from the rule of high public participation and intervention in a time of crisis to a new norm, where private parties will be primarily responsible for supporting the system in time of distress. The elements of this new regime were indeed present in the process that Greece followed during the past couple of months. The banks bailed in almost all of their bondholders before resorting to capital share increases, thereby significantly altering their capital structure. Pre-existing shareholders were required to shoulder most of the losses by foregoing their

subscription privileges and by ending up severely if not completely diluted. When public participation was deemed necessary, it was provided in rather unfavorable terms, through the issuance of expensive CoCos. In all these respects, the Greek case is not a milestone in the way Cyprus was; it signals however the dawn of a new era for banking resolution and can provide us with a blurred yet valuable glimpse of the future of European banking resolution.

CHALLENGES FOR THE FUTURE

The policy change that has occurred in the field of bank resolution over the past years in Europe may hold significant implications for a number of issues relating to the stability and the future of the European financial system. As the dawn of this new era, the last step in Greek bank recapitalization has brought to the forefront a number of issues that may puzzle regulators, market participants and the general public in the future. With the new Law 4335/2015 fully entering into force in 2016, the following issues may be interesting in the context of another Greek bank recapitalization, or more possibly resolution.

The Cost of Debt for Credit Institutions

One of the main concerns surrounding the introduction of the bail-in tool and in general the increased participation of creditors in bank restructurings is that such a rule is very likely to increase the cost of credit, particularly unsecured debt. These fears proved very true when, on October 19, 2015, just four days following the exchange offer to bondholders, the credit rating agency Standard & Poor's downgraded Piraeus Bank to "Default,"[62] arguing that the exchange offers were "distressed exchanges," since bondholders would receive less than the nominal value of their bonds. Soon afterwards the other three banks were also downgraded along the lines of the same argument. The same had happened in Denmark, where the earlier introduction of the bail in tool, had resulted in a 25 to 50 basis points increase in bank funding.[63] These trends if maintained over a long period of time may pose significant obstacles in the banks' access to senior unsecured debt.

On the other hand however, a clear ex-ante allocation of risks may be welcomed by market participants,[64] since it will allow them to price risk more

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[62] "S&P downgrades Piraeus to 'default'" last modified October 19, 2015, *available at* http://www.ft.com/fastft/ 2015/10/19/ sandp-downgrades-piraeus-default/.

[63] European Commission, "Economic Review of the Financial Regulation Agenda," Brussels, May, 15 2014, p. 217.

[64] Orrick, "The EU Bank Recovery and Resolution Directive Bringing Stability Back to the

accurately and possibly internalize the costs of expected resolution. The main benefit of the new Law is that it clarifies the order by which creditors will be affected. It is now therefore much easier for creditors to price the risk of losses from resolution. In order however for the risk to have a neutral outcome on the banks' access to credit, it has to be counterbalanced by an increase in the de-facto safety of banks across the EU. In this respect the efficiency of the new regime propagated is directly linked to the success of another pillar of the European Banking Union, namely the Single Supervisory Mechanism ("SSM") and the macro-prudential regulation of credit institutions.

The SSM[65] confers prudential regulation of European systemic financial institutions directly to the ECB, while the remaining credit institutions continue to be regulated by the national authorities, under the supervision of the ECB. In exercising its regulatory powers the ECB (and the national authorities) applies the Capital Requirements Regulation, a regulation adopted in 2014 aiming to implement all prudential rules of Basel III and reinforce the banks' capital buffers. In this sense, the ECB's role in the new European financial architecture is critical. If the ECB exercises its regulatory powers prudently and achieves a strengthening of all banks' capital ratios across the EU, thereby making resolution less likely, then the impact of bail-in on the cost of credit is likely to diminish over time. If such an objective is not fulfilled however, widespread uncertainty may keep funding costs higher than the baseline. It may also lead to cherry-picking between credit institutions in different member-states; in such a scenario, economically weaker member-states may experience another round of financial instability.

The Danger of Deposit Flight

In the Greek case, the flight of deposits had begun during the initial stages of the debt crisis, as far back as 2010[66] and as a result of the increased uncertainty about the country's economic future. In the years following the First and Second Economic Adjustment Program, deposit flight became a serious issue for Greek banks; total deposits in 2009 amounted to 280bn

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European Banking Sector," Financial Industry Alert, September 15, 2014 *available at* https://www.orrick.com/ Events-and-Publications/Documents/Legacy-Of-Lehman-EU-Bank-Recovery-And-Resolution-Directive.pdf.

[65] Regulation (EU) No 1024/2013 (Official Journal of the European Union L 287/63).

[66] January 2010 was the first time in seven years and the third since the induction into the Euro that the BoG reported a net decrease in deposits. "Deposits of credit institutions," accessed January 11, 2016, at http://www.bankofgreece.gr/Pages/el/Statistics/monetary/deposits.aspx.

EUR[67] while in 2012 they had been reduced to just 205bn EUR. The deterioration of economic indicators in 2015 produced widespread doubts about the stability of the banking system and the safety of deposits, which peaked during the summer of 2015; as a result net deposit outflows reached 30percentwith total deposits standing at just 155bn EUR. Even the imposition of capital controls in July 2015 did little to stop the hemorrhage. With the memories of Cyprus still fresh in their minds and the prospect of a haircut seeming more likely every day, depositors continued withdrawing their savings from the banking system and either hiding them "under mattresses"[68] or channeling them to consumption.[69] Even though deposits in Greek banks were eventually left untouched, the prolonged uncertainty had a similar effect; the loss of confidence in the safety of deposits produced significant liquidity problems for credit institutions.

The commitment of EU policymakers in creditor participation in bank resolution could very well produce a similar outcome, namely a loss of confidence in the safety of deposits across the European Union. Depositors in the EU can now not rely on the government or the European institutions to bail them out but instead have to contribute themselves in case a bank is likely to fail. In this respect, the risk of deposits has risen. On the other hand however, even though the new regime has deemed deposits bail-in-able, it has disposed of the uncertainty regarding their rank, by ranking them ahead of senior unsecured debt and other creditors. In this sense, the new regime has raised the rank of deposits vis-à-vis other creditors[70] and therefore reduced risk. Even though the net outcome of these developments is uncertain, the new resolution regime stresses the importance of further harmonization regarding the third pillar of the European banking union, namely deposit guarantee.

Deposit guarantee in the European Union operates on a national level.

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[67] *Id.*

[68] The intermediate report of the governor of the Bank of Greece, reports that a large number of withdrawn deposits have been preserved in the form of money notes. Bank of Greece, "Monetary policy: Intermediate report 2015," December 2015, p. 112. Bloomberg also reported a spike in circulating cash during the first months of 2015. "It really looks like Greeks are hiding cash under the mattress," last modified March 20, 2015, http://www.bloomberg.com/news/articles/2015-03-20/it-really-looks-like-greeks-are-hiding-cash-under-the-mattress.

[69] Despite the imposition of capital controls, consumption proved resilient and bounced back during August and September 2015. This can be explained by the widespread use of electronic means of payment and the uncertainty regarding the future of deposits. Bank of Greece, "Monetary policy: Intermediate report 2015," December 2015, p. 53.

[70] European Commission, "Economic Review of the Financial Regulation Agenda," Brussels, May 15, 2014, p.217.

Directive 2014/49/EU obliges all Member States to recognize a deposit guarantee scheme ("DGS") within their jurisdiction[71] and to cover all deposits up to 100,000 EUR.[72] Regardless of this obligation however, the funding of the DGSs does not involve the appropriation of any European funds but instead relies on ex ante contributions made by member credit institutions,[73] usually all deposit-receiving institutions in that member state. The safety of deposits is therefore not universal in the EU but instead relies on the robustness of the banking system of each member state. In this context, the 100,000 EUR coverage limit does not mean much, as long as the DSGs do not have adequate funding[74] to absorb systemic shocks to the banking system as in the case of Greece,[75] where the entire banking system was on the brink of insolvency. The new regime favoring creditor participation in bank resolution is therefore very likely to create further imbalances between the distressed European South and the robust North and induce a northbound flight of deposits.

In order for the new resolution framework to be successful, a wider risk sharing in the field of deposit guarantee is required. The establishment of a Single European Deposit Guarantee Fund would ensure depositors that their minimum deposits (100,000 EUR) are equally safe everywhere across the EU. By taking deposit insurance from the hands of national sovereigns, the EU would secure an equal playing field and contribute to the stability of fragile banking systems. More importantly however it is the only context in which any form of creditor bail-in can work without severe adverse consequences for the liquidity and stability of banks. Taxpayers across the Union would insure depositors up to 100,000 EUR instead of being constantly called upon to bail out entire banking systems in times of trouble. In this respect, even though the

[71] Art. 4 par 1. Directive 2014/49/EU.

[72] Art. 6 par.1 Directive 2014/49/EU. According to the Directive this article need not be transposed to acquire legal enforceability but is in force from the time if issuance of the directive (July 2014).

[73] Art. 10 par. 1 Directive 2014/49/EU.

[74] The Directive contains specific provisions regarding the funding of DGSs. Article 10 par. 2 stipulates within a 10-year period from the entry of the Directive into force), the available financial means of each DGS must have reached a 'target level' of at least 0.8percentof the amount of the covered deposits of its members. As *Gortsos* notes however, "this target level is a clear indication that, despite all the efforts to the contrary, DGSs are still tailored for small credit institutions." Gortsos, Christos V. The new EU Directive (2014/49/EU) on deposit guarantee schemes (Athens: Nomiki Vivliothiki, 2015) p. 77.

[75] The Greek deposit guarantee fund was reported to have around 4.2bn EUR in funds, 2.2bn of which were in the form of deposits. Greek Deposit Guarantee Fund Financial Statements, *available at* http://www.teke.gr/files/Apologismos_2014_31_03_2015_.pdf.

risk of losses from bailouts has been reduced for the taxpayers (particularly in richer EU countries) they will need to shoulder an extra cost, namely the guarantee of covered deposits. Transition problems to a new single deposit guarantee fund could be addressed by a number of intermediate solutions, such as an ESM backstop[76] or a re-insurance scheme.[77] Despite vocal political objections to such plans, such a measure is a necessary component of a properly functioning European banking union.

A CONCLUSION: THE ROLE OF BANKING UNION IN FOSTERING CREDITOR PARTICIPATION

The Greek banking system has suffered extensively as a result of the country's fiscal imbalances. Unlike Ireland and Cyprus, in Greece public finances sunk the banking sector and not the other way around.[78] In 2013, when the decision was made to recapitalize the banking system, the path followed was a massive injection of public capital, provided by the HFSF. The bailout however even though successful had certain key omissions, particularly regarding NPLs. When political turmoil and uncertainty led Greek banks to the brink of insolvency in 2015, the political developments in Europe were favoring the participation of creditors in the new round of recapitalizations. Even though depositors were not affected, debt holders were bailed in, pre-existing shareholders were almost completely diluted and the government received, where it had to, debt securities instead of equity. The legal framework had changed significantly, from advocating unconditional public financial assistance to encouraging private participation.

The recent round of Greek bank recapitalizations was an ad hoc solution. It was however the last of the ad hoc solutions that Europe would support regarding bank resolution. The new resolution regime envisaged by the BRRD and Law 4335/2015 will systematize creditor participation and make creditor-bail in the norm across the EU. As the Greek case exhibited however there are a number of issues that are likely to come to the forefront when the bail-in is fully implemented and in the case that Greek banks find themselves in the same predicament again. The credit downgrade of Greek banks following their

[76] Schoenmaker, Dirk and Wolff, Guntram B. "What options for European Deposit Insurance?," Bruegel Blog, October 8, 2015, *available at* http://bruegel.org/2015/10/what-options-for-european-deposit-insurance/.

[77] Gros, Daniel "Principles of a Two-Tier European Deposit (Re-)Insurance System," CEPS Policy Brief, April 2013.

[78] Bazinas, George B., Sakkas, Yiannis G., and Paizis Athanasios D. "Recapitalization of Greek systemic banks" *The Comparative Law Yearbook of International Business* 37 (2015): 4.

exchange offers to bondholders demonstrated that credit institutions may face an increase in the cost of credit, when bail-in is imminent or shortly after it is implemented. Additionally, the growing outflows of deposits from Greek banks during the summer of 2015 exposed a lack of trust in the safety of deposits even when bail-in is not a standard tool of restructuring but only exists as a remote possibility.

The efficiency of the new bank resolution framework and the successful participation of creditors in future recapitalizations can thus only be ensured if the other components of the European banking union are fully and successfully implemented. Sensible prudential regulation in the context of the SSM will lead to safer and sounder banks and will ensure that credit institutions have access to credit under the same terms. A breakthrough in deposit guarantee and the establishment of a European authority that will insure depositors against the risk of bank failure will additionally reinforce public trust in the safety of deposits everywhere in the EU. As a major component of European banking, bank resolution can only work as long as it operates in harmony with the other gears of the system, namely prudential regulation and deposit guarantee. The future of bank resolutions, not just in Greece but across the EU, is thus dependent on the success of the banking union as a major European undertaking. The real challenge for the future is therefore not just to protect taxpayers from failing banks but more importantly to achieve a true European unification in financial regulation.