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## **Valuation for the Purposes of Resolution: Developments & Remaining Concerns**



**EBI Stakeholders' Event on Resolution**

**Single Resolution Board, Brussels, 29 November 2019**

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# Valuation in the resolution process

## Objectives and purposes of valuations in resolution

Protection of private rights, NCWO principle (BRRD, rec 51; SRMR, rec 63)

Establishment of FOLTF, full recognition of losses (BRRD, rec 52; SRMR, rec 63)

Orientation of resolution action

Benchmark for various aspects of the resolution process

## How many valuations?

Description in BRRD/SRMR v EBA RTSs/SRB Framework classification

Implications for valuations' nature and methodological approach

Provisional valuations and buffer for additional losses

# Valuers' independence

## Broad conception of valuers' independence

Independence operationalized in CDR 2016/1075, Arts 37-41 as absence of conflicts, but also as

adequacy of expertise, experience, resources, ability to carry out the valuation without undue reliance on SRB/NRAs or the entity

## Substantive limits on valuers' independent judgement

Constraints on assigned tasks and assumptions

Role of SRB in guiding valuations by way of instructions

– in principle, only if **necessary** for achieving the goals of the valuation (DR 2016/1075, Art 39(4)(a))

Regulatory standardization of the methodological approach

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# Defining a general framework for valuations: EBA v SRB

## EBA RTSs on valuation methodology

Exercise of specific mandates in BRRD

Already in force: CDR 2018/345, CDR 2018/344, CDR 2016/1401

## EBA Handbook on Valuation

Reflects and systematizes the RTSs, systematizes NRAs' practice

cf EBA mandate to develop European supervisory handbook

(Reg 1093/2010, Arts 8(1)(aa), 29(2))

## SRB Framework for Valuation

Duplication or different audience and purpose?

Necessary instructions to valuers or exercise of regulatory function?

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# Information basis & timeframe for valuations

## Problem of flawed and/or dated financial information

Valuation's dependence on accurate, granular, up-to-date data

Resolution planning's role regarding availability of banks' internal information and specification of MISs (cf ECA report on SRB, para 67)

EBA Handbook, draft ch 10 on MIS: reliance on data aggregation and valuations in banks' management information systems; Data Dictionary

Sharing of information between supervisory & resolution authorities (see now revised ECB-SRB MoU)

## Timeframe for valuation

SRB preparedness regarding valuers' engagement / tender process

Point for commissioning the valuation

Relation to liquidity issues

Would a moratorium help? Benefits and risks

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# Valuation 1: establishing FOLTF

## Purpose : establishing the institution's true state

Fair, prudent and realistic assessment of assets and liabilities, identification of full extent of (expected) losses

'Going concern' valuation, based on challenging the accounting and regulatory information

Priority on areas of uncertainty, factors affecting key assumptions

Utilization of any updated information, when available/accessible

## Link to accounting values & supervisory data and metrics

Valuations must be consistent with the applicable accounting and prudential regulatory framework (DR 345/2017, Art 7(3))

Necessary relationship between SREP and FOLTF determination

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## Valuation 2: input for selection of resolution action?

### Purpose of Valuation 2

‘Fair, prudent and realistic’ valuation of ‘economic value’?

‘Going concern’ or ‘gone concern’ valuation?

Significance of preferred resolution strategy for scope & assumptions

### Methodological approach

Preference for discounted cash-flow approach over market multiples or adjusted book-value

Hold v disposal value: valuation made to depend on preselected resolution tool, determining time horizon, fire-sale assumptions; estimation of operational costs

In the case of provisional valuation: buffer for additional losses

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## Credibility of valuations

### Inherent uncertainty of valuation process

Best point estimate and range of values

Number of valuations (and valuers?)

Incentive issues: bias in favor of low valuation?

### Banco Popular as a test case

Valuation explicitly rushed and based on insufficient information

No relationship to the prior supervisory/accounting assessments

Obscure impact of liquidity pressures on asset valuation

Huge value range; best estimate 'eerily close' to sum of T1 & T2

Valuation 3 as 'validation' of the original assessment

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# Transparency & disclosure of valuations

## Public disclosure of valuation reports and documentation?

Inherent tension between transparency and protection of public and commercial interests

Public accountability and performance evaluation aspects  
(cf EP BU Annual Report 2017, para 31)

## Disclosure as prerequisite for contestability of SRB decisions

SRB Appeal Panel decisions 38 to 43 and 45/2017:  
no general presumption of non-accessibility, but publication may be subject to appropriate redactions

SRB justification of redactions in the published texts

## Valuations as primary reputational & political risk for SRB!

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## Valuation 3: NCWO & the counterfactual

### 'Gone concern' valuation

#### Purportedly *ex post*

Notional time horizon of the counterfactual calculation:  
DR 2018/344, Art 1(1)

Based on information available at the time of resolution action

Impact of macroeconomic and market conditions

#### National insolvency law outcomes as benchmark

Assumption of piecemeal winding up / asset realization

Is this always true?

Is this appropriate?

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**Thank you for your attention**

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