

Protection of depositors in the event of a bail-in

Information provided by the Autorité de Contrôle et de Résolution (ACPR) on its website <https://acpr.banque-france.fr/en/resolution/protection-depositors-event-bail>

The European Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD) specifically identifies the protection of depositors as one of the principles and objectives of resolution (Articles 34 and 31 respectively).

When a failing bank enters into resolution, a tool known as a "bail-in" can be applied to force shareholders and creditors to absorb the losses and recapitalise the bank. Depositors are always protected, whether a bank is placed under resolution or into straightforward liquidation.

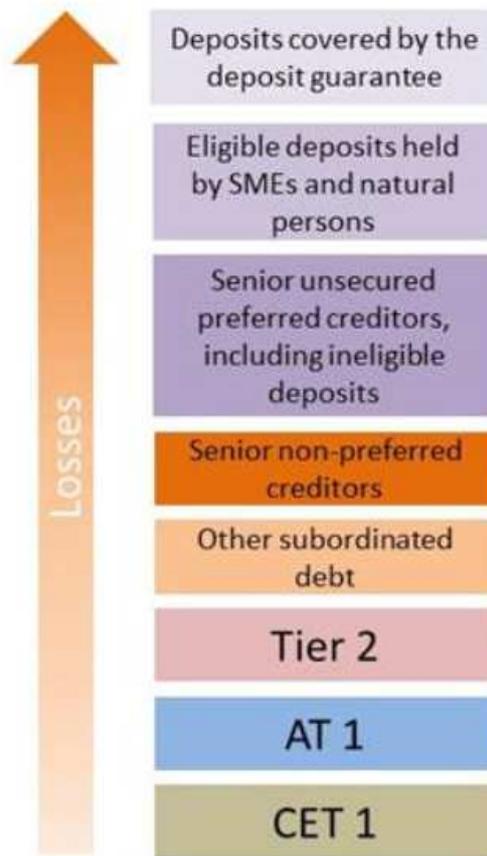
In the case of a resolution:

- Covered deposits (up to EUR 100,000) are protected as they are excluded from the scope of the bail-in.
- The ordinance transposing the BRRD into French law stipulates that no depositor may incur losses greater than they would have incurred under normal insolvency proceedings (NCWO – no creditor worse off than in liquidation).

In the case of a liquidation, depositors are also protected:

- Deposits of up to EUR 100,000 are protected by the deposit guarantee scheme of ACPR, and reimbursed from a fund previously built up using contributions from financial institutions.
- Depositors are given a preferential ranking in the hierarchy of claims, and are thus reimbursed before ordinary creditors: amounts covered by the deposit guarantee scheme (up to EUR 100,000) are given a high ranking, followed by any amounts in excess of this threshold. Depositors are the last to be asked to make a contribution in the event of a resolution (after holders of capital shares and debt securities).

Hierarchy of creditors for the bail-in tool



Article L. 613-30-3 of the French Monetary and Financial Code modified the hierarchy of claims for credit institutions, placing depositors even higher up in the ranking. This makes it easier to apply the bail-in tool and provides depositors with greater protection. Credit institutions can also issue a new category of debt securities which absorb losses after subordinated debt instruments and before preferred liabilities.

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