

# 'Bail-in' overseas—horror stories

## The Impact of Bail-in on Europe

Europe in 2016 adopted a 'Bail-in' regime—the *Bank Recovery and Resolution Directive* (BRRD)—under which government bailouts are permitted only in exceptional circumstances, and only in conjunction with a mandatory bail-in of the failing bank's various classes of unsecured creditors. This practice of confiscating creditors' investments, or transforming them into shares in the bankrupt entity, is called "burden sharing". In reality, there's not much sharing: innocent retail customers, whether bondholders or depositors, bear the greatest burden, being punished for the bank's reckless gambling. This, in turn, has negative consequences for the national economy, as has been seen in one country after another.

**Cyprus:** The so-called Troika (International Monetary Fund, European Central Bank and European Commission) demanded that Cyprus confiscate money from its banks'



In March 2013 anguished Cypriots protested the plan to seize their deposits.

customers, following the crisis in early

2013. Initially they planned to seize a percentage of all deposits, but re-evaluated the plan after opposition from Parliament, and only seized deposits over the guaranteed level of €100,000. Access to deposits under €100,000 was frozen, with bank withdrawals limited to €300 per day. Bills could not be paid, workers were laid off, stores closed. Electricity consumption plummeted 25 per cent in two weeks. Merchants refused to accept letters of credit from Cypriot banks. Four months later, domestic bank deposits had shrunk by 70 per cent. Unemployment rose from 11.7 per cent to 17.3 per cent in one year, the fastest growth rate in the eurozone. Youth unemployment reached 40-45 per cent. GDP crashed, and as of 2016 was still 28 per cent below its 2011 level.

The model of suspending and limiting withdrawals from banks had been pioneered in Greece in late 2009. Along with the Troika's austerity measures, it resulted in shortages of medication, destruction of the health care system, and cuts in pensions and public sector salaries. Public consumption dropped by over 50 per cent in four years. Greece suffered increased poverty, death and a 50 per cent rise in the suicide rate as a result.



Italian pensioners protest in December 2015 outside Banca Etruria—one of four banks that were bailed-in—with signs identifying their losses. Photo: Il Tirreno

**Italy:** In November 2015, the government of Italy rushed through a "rescue package" for four insolvent commercial banks, which had been taken under administration by the Bank of Italy during the previous two years. Along with a €3.6 billion bailout came a €768 million bail-in of subordinate bonds, half of which were owned by some 10,500 retail savers. These were effectively depositors in the four banks, who had been manipulated into buying bail-in bonds by their banks when they were already in receivership.

A 68-year-old retiree who lost €110,000 in subordinate bonds in Banca Etruria, one of the four, committed suicide after the loss, leaving a note accusing his bank of stealing all his savings. Regional banks Banca Popolare di Vicenza and Veneto Banca ran into trouble in early 2016 and were liquidated by the European Central Bank (ECB) in June. While a full-blown bail-in was avoided, "burden sharing" was required, meaning some shareholders and subordinate bondholders were burned.

The EU continually pressed for a bail-in of Italy's long-insolvent Monte dei Paschi di Siena (MPS), but the Italian government held out, knowing it would affect 40,000 retail investors. In June 2017 a bailout for MPS was finally agreed between Italy and the EU, accompanied by a partial bail-in. Under an exemption from Europe's bank-resolution framework, the government was permitted to bail out MPS to the tune of €3.9 billion, but only because retail customers had €4.3 billion bailed in. Junior bondholders in the bank were given bank stocks that were only 18 per cent of the value of their bailed-in bonds.

**Portugal:** On 29 December 2015, Portugal's Novo Banco, the "good bank" established after the collapse of the Banco Espirito Santo group in 2014, expropriated €12 billion from its senior bondholders to "recapitalise" the bank. That prompted a run on the bank, plunging the value of the bonds from 94 cents on the dollar in the morning, to 14 cents in the afternoon.

**Spain:** When Spain's Bankia collapsed in 2012, "preferred stocks" were written down by 30-70 per cent; their price then plummeted to 0.5 per cent of their former value. Most of the "stockholders" in Bankia were former small depositors in the bank, who had been fraudulently sold these bonds, known in Spain as preferentes. Some of the over 1 million families invested in preferentes lost up to 90 per cent of their savings.

Spain's sixth largest bank, Banco Popular, drowning in bad speculative real estate deals, was wound up and bailed-in by EU authorities after the European Central Bank's Single Supervisory Mechanism declared it "failing or likely to fail" in June 2017. The EU's Single Resolution Board stepped in and orchestrated the sale of the bank to rival Spanish bank Banco Santander for the nominal fee of €1. Stockholders and Tier 1 and 2 bonds (Contingent Convertible, or bail-in bonds) were wiped out by close to 100 per cent, while senior bondholders and depositors were spared.

**Austria:** In April 2016 Austria ordered a bail-in that confiscated some €6 billion of senior debt of the Heta Bank, which is the previously bailed out remains of the bankrupt Hypo Alpe Adria Bank. Heta's senior creditors suffered a 54 per cent "hair cut".

In each of these crises, rules have been thrown out the window or new ones adopted to suit the circumstances. For instance, in the Novo Banco case, the Portuguese Central Bank was directed by the ECB to ignore the rule of so-called "equal treatment" for unsecured creditors.

### Other overseas reports:

- ['Bail-in' is fascism—the Cyprus catastrophe](#) - 2 Oct. 2013 - CEC Media Release
- [EU's bank 'bail-in' regime heralds fascism, death](#) - 6 Jan. 2016 - CEC Media Release
- [Bail-in fiasco in Italy](#) - 3 Feb. 2016 - *Australian Alert Service*
- [European bail-ins continue to fuel global crash](#) - 27 Jan. 2016 - *Australian Alert Service*
- [Europe reels under bail-in shock](#) - 20 Jan. 2016 - *Australian Alert Service*
- [Financial Mudslide Goes On - 'Bail-In' has Shut Down European Bond Markets](#) - 8 Jan. 2016 - *Australian Alert Service*
- [Europe contemplates freezing bank accounts—Glass-Steagall urgent!](#) - 3 Aug. 2017 - CEC Media Release
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- [Europe to extend 'bail-in' to guaranteed deposits—don't give crisis powers to banking technocrats!](#) - 29 Nov. 2017 - CEC Media Release
- [Spain's mission impossible—restoring faith in banks under EU bail-in regime](#) - 7 March 2018 - *Australian Alert Service*
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- [The great bail-in fail](#) - 9 May 2018 - *Australian Alert Service*
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- [Italy demands EU abolish 'bail-in' rules](#) - 13 March 2019- *Australian Alert Service*
- [Italian banking crisis incubated by EU—another 'bail-in' horror story](#) - 3 April 2019 - *Australian Alert Service*
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- [Raging speculation proves the fraud of 'bail-in'](#) - 12 Feb. 2020 - *Australian Alert Service*
- [When is a bail-in still a bailout?](#) - 4 March 2020 - *Australian Alert Service*
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- [When central bankers become Prime Ministers: The case of Italy](#); and, British banks push to wind back ring-fencing - 24 Feb. 2021 - *Australian Alert Service*
- [Bank protection mafia demands impunity for 'bail-in' agents](#) - 26 May 2021 - *Australian Alert Service*
- [Bailed in Cypriots told 'no alternative' to theft of deposits!](#) - 3 November 2021 - *Australian Alert Service*
- [New Zealand backflips on statutory bail-in](#) - 19 January 2022 - *Australian Alert Service*
- [UK review: the new regulatory sheriff in town is 'bail-in'](#) - 30 March 2022 - *Australian Alert Service*
- [How New Zealand pioneered 'bail-in'](#) - 20 July 2022 - *Australian Alert Service*

## United States - Dodd-Frank prioritises derivatives in bank bail-in



US President Barack Obama signs Dodd-Frank into law on 21 July 2010. Photo: Whitehouse.gov

*Taken from "Dodd-Frank's Mass Murder Mandate Is Treason: Crush It!", EIR 31 May 2013*

The US legislation, *The Dodd-Frank Wall Street Reform and Consumer Protection Act*, commonly referred to as "Dodd-Frank", codified into US law an international financial agreement, established in April 2009 in London by the G20 nations, to subordinate the banking systems of all member nations to the maintenance of the current international financial system. That international agreement prioritises claims of the international financial institutions, including trillions or quadrillions of dollars in derivatives gambling claims, over the needs of the population of the United States and other nations.

Under Title II of the Dodd-Frank Act, the leveraged gambling debts of the too-big-to-fail banks are put at the front of the bail-out line. Household and business depositors are defined as unsecured creditors, and will lose all but the Federal Deposit Insurance Corporation-insured portion of their deposits.

If a too-big-to-fail bank gets into trouble, the FDIC steps in, in the form of an Orderly Liquidation Authority to oversee the restructuring. In the process, the bank is saved—at the expense of the depositors who will lose all but the FDIC-insured portion of their deposits.

The receiver, the FDIC, determines which values in the bank must be upheld in the interest of "financial stability," and this undoubtedly includes financial derivatives, and other debt instruments, which, if sold off in the course of orderly liquidation, would cause a panic.

Under Title II, Sec. 9 E, it is stated that the FDIC "shall, to the greatest extent practicable, conduct its operations in a manner that ... (iii) mitigates the potential for serious adverse effects to the financial system."

The current financial system, G-SIFIs most emphatically (global systemically important financial institutions), are highly leveraged, hugely undercapitalised, and rely on classes of assets in the form of

securities contracts, collateralised debt obligations, derivatives, and other debt instruments, to maintain the appearance of solvency. Uncertainty in the value of a category of such assets triggered by any outstanding event, for example, the announcement of bank resolution, would create an across-the-board devaluation among all holders of those assets, thereby guaranteeing “adverse effects to the financial system.”

Moreover, under the US Bankruptcy Reform laws of 2005, securitised derivatives counterparties are given priority status in the event of bankruptcy. This is highly consequential for G-SIFIs, as it is the case that the majority of the world’s derivatives are concentrated in those institutions.

In May 2013, members of the House Financial Services Committee passed H.R. 992, the *Swap Regulatory Improvement Act*, with only six dissenting votes. The bill further guaranteed that derivatives contracts—pure gambling bets—would be protected even when held by foreign banks operating in the US. The *New York Times* reported on 23 May 2013, that H.R. 992 was written by Citigroup, and was introduced by Members of Congress on the receiving end of major Wall Street contributions.

In a 9 April 2013 column on her blog, “The Web of Debt”, author and chairman of the Public Banking Institute, Ellen Brown, agrees: “Under both the Dodd Frank Act and the 2005 Bankruptcy Act, derivative claims have super-priority over all other claims, secured and unsecured, insured and uninsured. In a major derivatives fiasco, derivative claimants could well grab all the collateral, leaving other claimants, public and private, holding the bag.”

Brown also cites a book by David Skeel, Professor of Law at the University of Pennsylvania, called “The New Financial Deal: Understanding the Dodd-Frank Act and Its (Unintended) Consequences”. He goes as far as to say that the Dodd-Frank policy approach is “corporatism”—a partnership between government and corporations. In 1938 Franklin D. Roosevelt described just such a phenomenon as the proper definition of fascism.

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