



FUNDS NEWS

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Banco Popular bondholders seek to overturn resolution

By Christopher Spink, IFR



LONDON, Aug 17 (IFR) - A group of bondholders in Banco Popular have filed challenges to European regulatory decisions that put the Spanish bank in resolution on June 7 and led to Santander's immediate purchase of the hastily restructured entity for €1.

The group, which includes Anchorage Capital, Algebris and Ronit Capital as well as pension funds and other investors, want the Single Resolution Board's decision to be annulled and the European Commission's swift endorsement of that decision to be overturned.

They claim that comments from SRB chair Elke König on May 23 that they "were watching" developments at Banco Popular and a further EU official comment on May 31 led to a run on the bank and its resolution.

"The SRB's breaches of professional secrecy ...undermined investor confidence and resulted in a run on the bank," said Richard East, partner at law firm Quinn Emanuel, which is representing the bondholders. Applications for annulment of the decisions by both the SRB and EC were lodged at the EU courts this morning.

Santander has already offered to pay up to €1bn in compensation to retail bondholders. Before its purchase, all subordinated creditors saw their holdings converted into equity of Popular, which was then picked up for €1 by Santander.

The bondholders are not seeking compensation under this particular claim, which seeks to reverse the resolution decisions. However, further actions are anticipated seeking damages if

they are not overturned. Forty separate legal actions concerning Popular have been lodged at the EU courts.

INCOMPLETE INFORMATION?

Quinn Emanuel's clients also say beyond the SRB breaching professional secrecy, there were errors in the decisions reached. The group says the EC's decision, coming a maximum of 77 minutes after the SRB's recommended resolution, was not long enough for an adequate assessment and review.

In addition they assert that the SRB had "relied on incomplete information for its decision, including a hastily prepared valuation report from Deloitte". This report has yet to be made public.

However, earlier this week the European Central Bank published its assessment of the situation on June 6. This noted that the loss of deposits since May 31 were "particularly relevant, once it was disclosed in the media that the bank might face wind-down."

"Given the adverse impact of these leaks, confirmed by the ECB, it's surprising that neither the SRB nor the EC are conducting an independent and transparent investigation," said East. "The SRB has demonstrated a total lack of transparency."

The bank run effectively hampered Popular's sales process, being conducted by JP Morgan and Lazard, leading to its resolution and distressed sale to Santander.

Under its scheme, Santander is offering retail holders of certain Popular sub debt, or equity acquired as part of its May 2016 rights issue, new sub debt instruments as compensation for the losses.

Up to €980m of the new bonds will be issued, paying 1% annually for seven years. The perpetual bonds can be called after seven years but will then pay 5.75% over bank spread rates.

Investors with less than €100,000 initially invested are to be repaid in full. Investors with €100,001 to €500,000 will get 75% of their nominal investment, while those with between €500,001 and €1m will get 50%. Holders of more than €1m will not receive any compensation. (Reporting by Christopher Spink; Additional reporting by Alice Gledhill; Editing by Owen Wild)

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