

Chronology of CBR Regulation – Private Banks

Date of Reg	Description
2013	
July 2013	The Russian Federal Financial Markets Service was disbanded and the Central Bank of Russia (the “ CBR ”) was granted the authority to act as the sole regulator of both the Russian banking and securities markets. This gave the CBR authority over audit firms, rating agencies, brokerages, pension funds, insurance companies and banks. The CBR took charge of all rehabilitation decisions and their implementation.
2014	
Early 2014	In early 2014 Russia annexed Crimea. This led to sanctions being imposed on various Russian officials and entities by the United States, EU and others. A number of Russian State-owned banks, such as VTB, were included in the sanctions. This created opportunities for some of the private banks which were unaffected by these sanctions.
2015	
15 July 2015	A law ¹ was passed to provide that credit rating agencies would only be allowed to carry on business in Russia for regulatory purposes if they had been accredited by the CBR, on the basis of methodology and guidelines approved by the CBR. The CBR determined the ratings criteria, via ACRA (described below).
Autumn 2015	The CBR took steps to create a new domestic credit rating agency, ACRA. The introduction of a local and effectively State-controlled ratings agency was met with some opposition on the basis that a) ratings agencies are supposed to operate with complete independence and b) there was no need for a State ratings agency to apply ratings in addition to those provided by recognised and respected international credit ratings agencies such as Moody’s and Standard and Poors.
2016	
August 2016	ACRA became the first of only two credit rating agencies to be accredited by the CBR.
December 2016	RAEX launched as the second credit rating agency accredited by the CBR.

¹ Bank of Russia Ordinance No. 3728-U, dated 15 July 2015 ‘on the Methodology of Evaluating the Assets and Liabilities of a Credit Institution’

2017	
January 2017	By January 2017, the CBR now regulated the methodologies used by all credit rating agencies. Only if the rating methodology was approved by the CBR could it be used for certain purposes. For that to happen, the agency had to disclose its confidential ratings methodology to the CBR. International credit rating agencies understandably refused to do so and therefore their ratings were no longer applicable for the purposes of whether certain investments could be made by regulated financial institutions in Russia. It meant, for example, that non-State Pension funds had to remove certain deposits and other assets with any financial institution that had not received the requisite rating from ACRA / RAEX, regardless of whether the ratings given by the international credit ratings agencies were higher. See the regulatory change introduced on 24 July 2017 (described below).
May 2017	<p>Prior to May 2017, if a bank started to suffer financial difficulties, the state Deposit Insurance Agency (the “DIA”) could either liquidate the bank and run the liquidation process or find an investor to inject capital and rehabilitate the bank. The DIA operated pursuant to a law, which had been in place for about 15 years, which empowered it to support financial institutions that were about to collapse, subject to CBR prior approval. Under this system, the CBR had limited powers to intervene directly to bail out a bank.</p> <p>A new law² passed on 1 May 2017 (that came into force on 16 June 2017) created the Banking Sector Consolidation Fund under the CBR’s control. Under this new law, the CBR could now unilaterally adopt a plan of its own participation in bank rehabilitation measures without engaging the DIA and use the Banking Sector Consolidation Fund money to do so. It had no such power prior to this.</p> <p>As a result of this change, the CBR could now nationalise banks (following its own assessment of the bank’s financial condition via ACRA and its supervisory powers) and then appoint its own management. To implement these new powers, the CBR established a new management company in July 2017 (CBR controlled) and developed new regulations for the Consolidation Funds purposes in August 2017.</p>
24 June 2017	The Russian government issued Ordinance No. 1319-p ³ , which entered into force on 10 July 2017, and provided that federal budget funds could only be placed in deposit accounts at a credit institution with a rating of at least A~(RU) issued by ACRA. Ratings issued by international agencies would no longer be accepted for these purposes. This prompted a massive outflow of non-qualifying deposits and other assets from many of the private banks, which in turn led to a run on liquidity more generally.

² Federal Law No. 84-FZ, dated 1 May 2017

³ Government Ordinance dated June 24, 2017 No. 1319 ‘On assignment of credit ratings to credit institutions under the national rating scale for the Russian Federation applied by Analytical Credit Rating Agency’

1 July 2017	<p>Non-State banks were given until 1 July 2017 to get a sufficient rating from ACRA or RAEX to be eligible to continue receiving deposits from non-State pension funds and federal budget funds. Only a few non-State banks, of which Moscow Credit Bank was one, succeeded in doing so.</p> <p>By July 2017 most bank-issued bonds were also excluded from the CBR Lombard List on the basis of their credit rating. Any new issues of bank bonds for the purposes of entering into repo transactions with the CBR were also suspended from inclusion on the Lombard List. Private banks had hitherto used the securities included on the CBR's Lombard List to manage liquidity through securities trading, repos and the like. They could no longer do so after this change.</p>
3 July 2017	In furtherance of the CBR's Resolution dated 1 March 2017 No. 580-P and with effect from 14 July 2017, the CBR ordered, that non-state pension funds could only be held in deposit accounts with credit institutions with a rating from ACRA or RAEX. By a separate decision the CBR determined that the rating required was at least A~ (RU).
3 July 2017	<p>Bank Otkritie received a rating from ACRA of BBB- making it ineligible to hold federal budget and non-state pension funds. This came as a surprise to many. The ACRA rating was several bands below those given by international credit ratings agencies. As a consequence, Otkritie had to return all pension fund and government-related deposits, practically overnight. Also, bonds issued by Otkritie could no longer be included in the CBR's Lombard list for the purposes of trading or as security for raising liquidity.</p> <p>Bank Otkritie experienced a massive liquidity outflow as a result of these changes, not helped by adverse media coverage. The CBR failed to provide any reassurance to the market that it would protect deposits or otherwise stand behind Bank Otkritie, despite Bank Otkritie being a systemically important financial institution.</p>
2 August 2017	The Russian government issued an Ordinance No. 1663-p that amended Ordinance No. 1319-p and introduced an additional requirement for credit institutions that would like to have federal budget funds placed in deposit accounts. A credit institution would have to obtain not only a rating of at least A~(RU) from ACRA, but also a rating of at least ruA- from RAEX, that is, have two ratings simultaneously.
29 August 2017	Without any prior announcement, the CBR placed Bank Otkritie into temporary administration, removing many of the existing board members. All equity holders were subsequently diluted so that the CBR became the 99.9% shareholder of Bank Otkritie and the other banks mentioned below.
21 September 2017	Likewise, the CBR placed B&N Bank and Rost Bank into temporary administration.

December 2017	The CBR intervened into Promsvyazbank after it was ordered to increase its capital by RUB 100 billion (US\$1.6 billion), which it was unable to do, having been given only 24 hours' notice of the requirement to do so by the CBR.
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