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# State-sponsored AMCs in Banking Crises

A Critical Analysis of Advantages, Costs and Risks

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# TECHNICAL

## NOTES & MANUALS

### The Case for (and Against) Asset Management Companies in Banking Crises

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TNM/2024/04

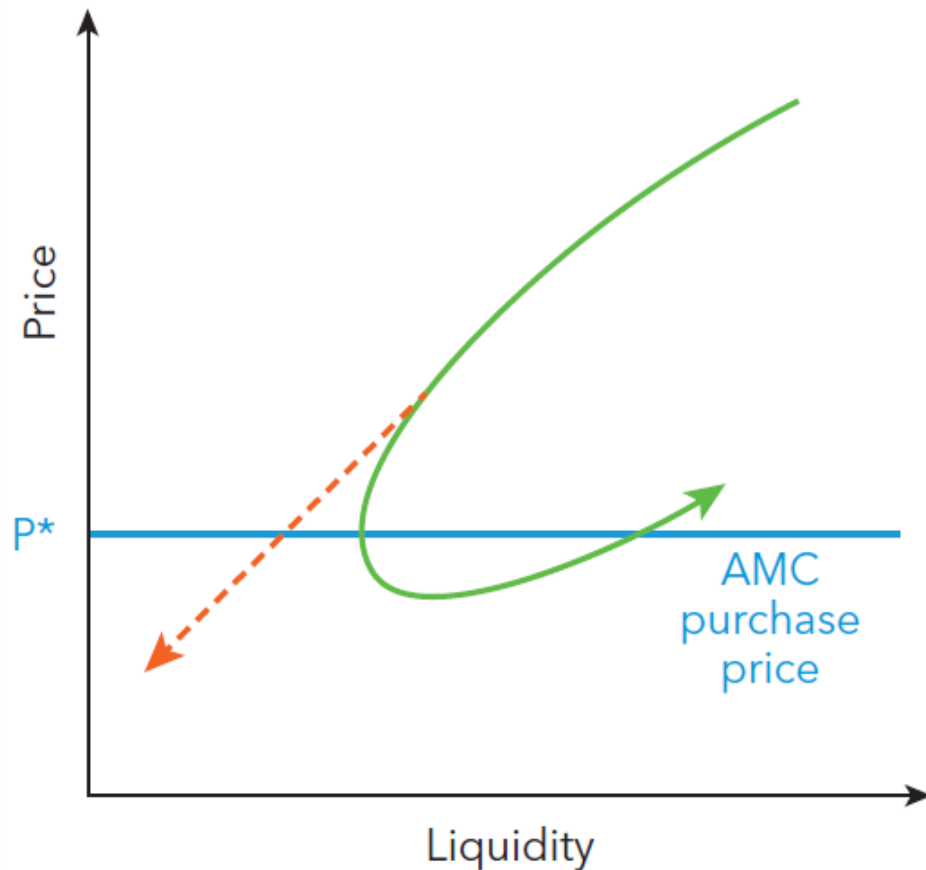
This presentation is based on a recent publication by the IMF on Centralized Public AMCs :

## TNM 2024/04

*IMF Technical Notes and Manuals 2024/04,  
International Monetary Fund,  
Washington, DC. USA*

## 1.1 The Market Failure Rationale

*An AMC has the potential to establish a floor on falling asset prices*



## 1.2 The Operational Rationale

*A centralized AMC can help:*

- Banks refocus on their core lending activity.
- Have a centralized and specialized management of NPLs.
- Optimize debt recovery strategies.
- Promote sounder and uniform practices on the valuation of distressed assets.

## 2. But centralized AMCs are not a panacea...

Five important costs and risks to consider:

- I. High uncertainty around transfer pricing
- II. High vulnerability to downside risks
- III. High set-up costs & operational risks
- IV. Political interference risk and reputational risk
- V. Moral hazard

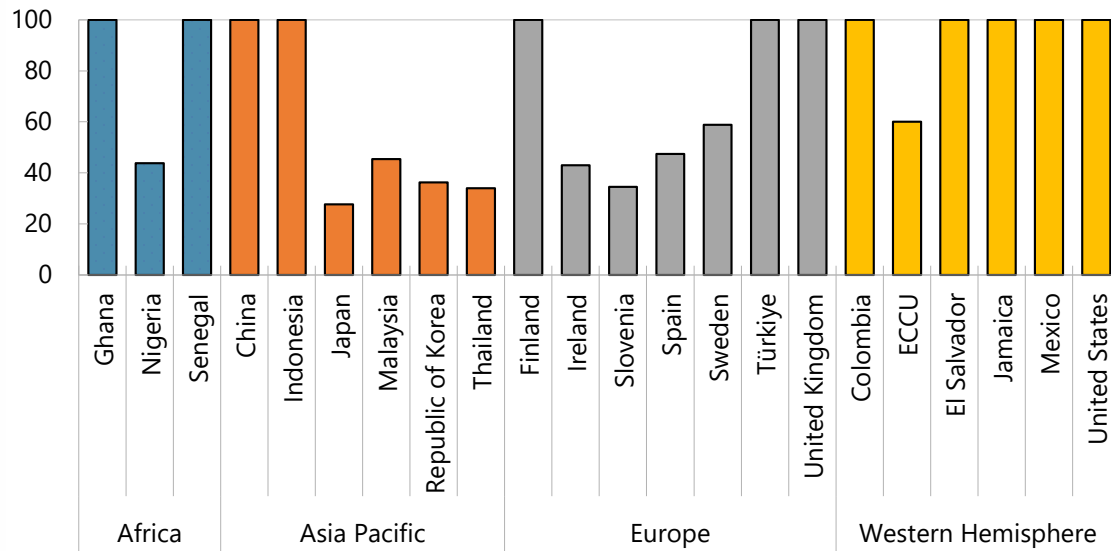
**Therefore, a prudent and careful analysis is needed before deciding to establish a centralized AMC.**

# 3.1. One critical design factor for a successful AMC:

- Establishing a fair and prudent transfer price

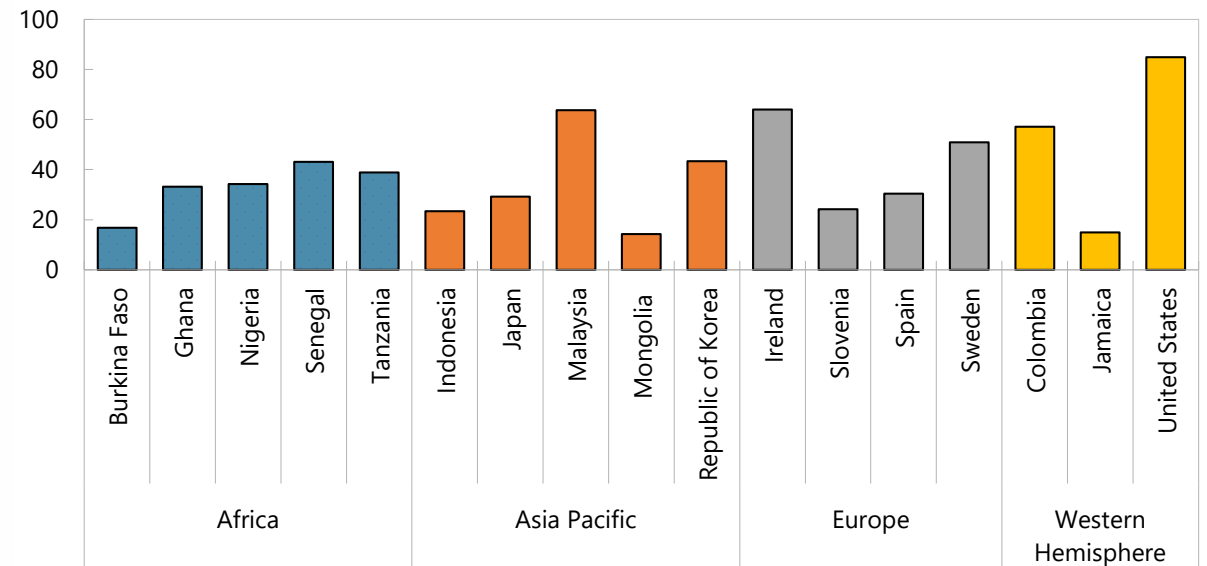
Average Transfer Price

(Percent of banks' book values)



Recoveries of Transferred Assets

(Percent of banks' book values)



Source: IMF Staff.

Note: ECCU = Eastern Caribbean Currency Union.

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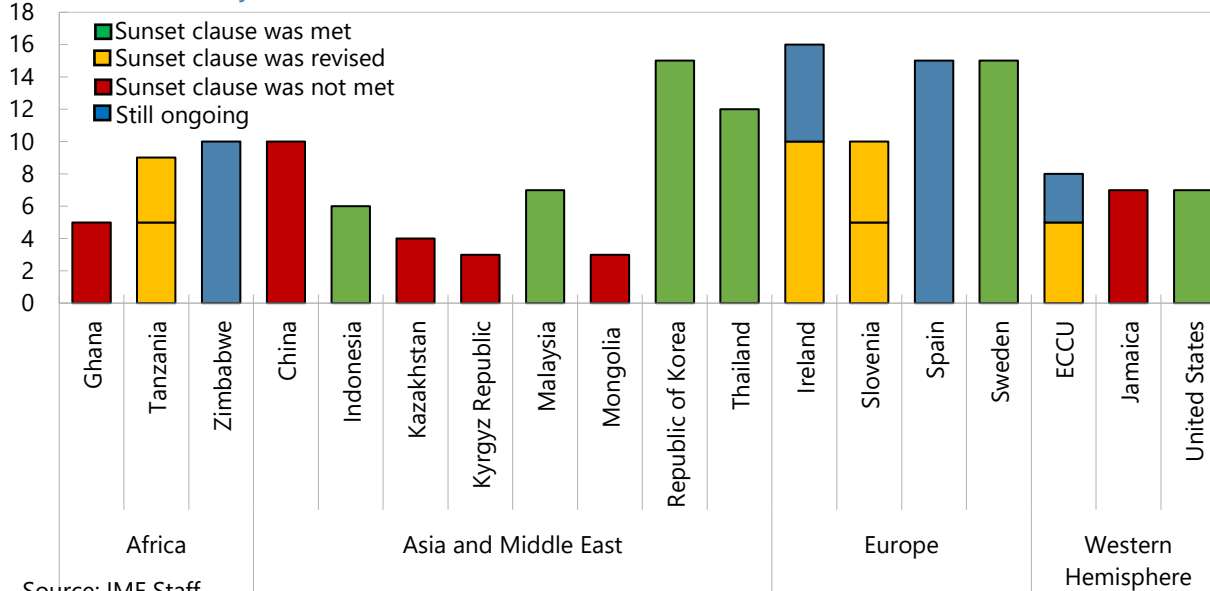
**When the transfer price is not based on a prudent valuation, the AMC will only serve as a mechanism to defer taxpayer losses, rather than minimize them...**

## 3.2. Other key design features:

- Adequate funding and capital structure
- Need for a targeted and time-bound mandate

Asset Management Companies with Predefined Lifespans

(Sunset clause in years)



Source: IMF Staff.

Note: ECCU = Eastern Caribbean Currency Union.

## 4. Strong Governance is crucial:

- Including independent & commercially-driven management
- And internal and external controls