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Investigating the different methods of transferring surplus assets of banks; Recommendations and solutions

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Bank lending, which is the main axis of financing in the country, is of great importance for economic policymakers. Because reducing the lending power of the banking system can disrupt the financing system. One of the problems of banks that has damaged banks' lending power is the composition of banks' assets. A significant portion of banks' assets has been placed in the process of owning a movable and immovable property rather than circulating in lending. This state of assets is due to various reasons. But in general, it can be said that some of these assets were acquired voluntarily by banks, and some were involuntarily acquired, and instead of deferred debts and facilities (in which the debts of public and governmental sectors are also significant) were acquired by banks. To streamline the banks' balance sheets and increase the banking system's lending power, it is necessary to consider methods to transfer and sell the banks' surplus assets. The issue of transferring the banks' excess property started in 2007 with the by-laws' approval on the transfer of non-essential assets and continued in 2008 to establish the surplus property sales company. However, until 2015, when the law on removing barriers to production was announced, and banks were required to transfer, there was practically no acceptable performance in this area. Although there was a significant increase in divestitures with the promulgation of this law, the performance achieved was significantly different from the target set by the law, which indicates the existence of several challenges in the transfer of surplus assets of banks.

Lack of uniform principles and framework among regulatory bodies in divestitures, risk of legal problems for managers, lack of transparency in the definition of responsibilities, and bank managers' unwillingness to divestitures are the most important challenges of divesting banks surplus assets from the seller. Also, the lack of proper access of buyers to divestitures, buyers' unwillingness to accept the risk of purchasing this property, and the inadequate incentive structure in valuation are among the challenges of the buyer side of these divestitures. In addition to these challenges, the voluntary decision of banks to hold assets instead of lending has become an important factor in the accumulation of assets in banks. Due to the high risk of default and low return compared to risk (due to the formal determining of interest rates), banks prefer to hold other assets rather than inject liquidity in lending. Therefore, one of the challenges of transfers is the lack of proper cooperation of banks in this process.

Although comprehensive policymaking is needed to continue the successful refinement of banks' assets and the transfer of banks' surplus assets to overcome the challenges by designing appropriate incentive mechanisms, one of the most important strategies for efficiency in the transfer process is reform and improvement of transfer methods. Therefore, the following suggestions can be made to improve the methods of transferring surplus assets of banks:

1- Methods appropriate to the type of asset

The first point to note in the transfer of assets is that the banks' surplus assets are not homogeneous and uniform so that an optimal method can be introduced for the transfer of all of them. Therefore, according to the type of assets and their characteristics, they can be classified, and a suitable method can be introduced for each type of asset. For example, the movable and immovable property transfer methods should be different according to their different nature. Transferring financial assets such as shares of TSE listed and non-listed companies through capital market instruments such as mutual funds can be a good solution. While transferring real estate and assets of banks requires different ways. Of course, consolidating these assets in a company and then transferring that company through the stock exchange can be one of the solutions. Otherwise, auctions of property, whether from systems connected to the capital market or outside it, can be another way of transferring financial assets. In addition to movable and immovable assets, other characteristics such as the type of asset ownership by the bank, having or not having a partner in the asset ownership, acceptance or rejection of shares of the acquired companies, ownership percentage, and size of assets are some of the features that can change the appropriate method of transfer. Therefore, it is not possible to compile a single copy for the transfer method, and the assignment method must be appropriate to the type of asset. To improve the mechanism of assigning surplus property, it is also necessary to develop specific instructions by the supervisor for the process of pricing and property supply, negotiation method, and the like.

2- Transfer through investment funds

One way to transfer banks' shares would be to set up an Exchange-Traded Fund (ETF) and sell that fund. One of the features of this type of transfer is that it is possible to separate the management and ownership of assets by defining normal and preferred investment units. Given that the possibility of transferring management has been removed in government tradable investment funds, this separation of management and ownership and the monopoly of management can make trouble for the enterprises that are transferred in this way. Therefore, in the transfer of entities owned by banks, the possibility of transferring preferred investment units (whose owners are involved in the management of the fund) should be considered.

Of course, the transfer of assets through these funds is for the shares of companies listed on the stock exchange, and therefore other assets such as real estate or shares of non-listed companies cannot be transferred in the current structure. Therefore, if a non-listed company wants to be transferred in this way, first, a part of its shares must be offered on the stock exchange to find out the price, and then the rest of the shares must be transferred in the form of a fund. Of course, micro and non-managerial shares of banks (in which banks hold a small percentage of those companies' shares) can also be divested in other ways, such as direct block and micro supply in the market.

One of the challenges of divesting through Exchange-Traded Fund (ETF) with inactive management is its marketing type. Because one of the ways to provide liquidity for these funds is to sell assets, if this is not going to be possible for the fund manager, there will be no tools to market these funds. Of course, the transfer of shares of banking subsidiaries by creating other types of investment funds can also be considered.

3- Establishment of an asset management company

This approach is mainly for assets that are mainly collateral for non-current facilities and have been confiscated by the bank. Creating such a company can solve the legal problems that may exist in the acquisition of these assets, and therefore can be a good solution for this type of asset. Since a significant part of banks' assets is obtained through this method, it is necessary to pay attention to this method and other methods.

4- Construction Fund and Real Estate Investment Trusts

Construction funds (which are licensed by the Exchange and Securities Organization and for which the legal structure is defined) and Real Estate Investment Trusts (which are being introduced by the Exchange and Securities Organization) can be combined and efficient for transferring bank' surplus assets. Banks can invest their property and land in these funds and turn them into an investment unit of these funds, thereby increasing their liquidity and enabling their transfer.

5- Other transfer methods

Block selling the shares of companies owned by banks means the simultaneous transfer of ownership and management of companies, and therefore has a higher efficiency than creating an intermediary institution. This method's transfer price will be higher than the stock price in the market and retail mode in terms of management rights. Of course, issues such as buyer eligibility and lack of buyers are some of this method's problems. Also, the retail sale of shares in the market is another transfer method that is recommended for situations where the bank is not a major shareholder. The offering of real estate on the stock exchange is also one of the proposals for the transfer of surplus property of banks, facilitating the transfer of property due to the transparent and wide market that it creates.

6- Modification of motivational mechanisms

One of the reasons for the accumulation of surplus property in banks is the voluntary choice of banks to enter other markets such as real estate and corporate. Therefore, as long as banks are willing to engage in business and invest in other markets such as real estate, housing, currency, etc., they will not be willing to transfer their property. As mentioned, the most important reason for banks to make this choice is the facility's high risk (due to the high default rate of the facility) and its low return due to the risk. Therefore, banks make a rational decision to enter other markets by comparing the return and risk of lending and other markets' return and risk. In this regard, policymakers should use various tools such as taxation and rationalization of interest rates to seek a fundamental solution to the banks' surplus property and lead them to the main and core activities of the banking business (such as payment of facilities, services, etc.). For example, imposing capital gains tax rates on banks' income from other markets can reduce banks' willingness to enter other markets.

7- Prevent the accumulation of surplus assets of banks

Most of the mentioned cases refer to the situation in which the banks' surplus assets have been created, and now the bank is seeking to reduce the surplus assets. However, it should be noted that if the problem of banks' surplus property is to be solved, it is necessary to solve the current property problem and prevent the new accumulation of surplus property. It will help control the inflow of banks' surplus assets in the future and solve this problem more radically. In this regard, it is necessary to increase the scope of credible assets in the banking system, continuous supervision of the bank itself in the first place and the Central Bank in the second place, and appropriate punve and incentive measures to prevent the recurrence of this problem.

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