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Goldman, Citi Decry Russian Plan to Limit Funds Held Abroad

By Bloomberg

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Brendan McDermid / Reuters

Goldman Sachs Group Inc., Citigroup Inc. and Raiffeisen Bank International are among foreign banks protesting a Russian central bank plan that would drastically reduce their ability to move funds from local units to their parent companies outside of Russia.

A group of 15 major foreign lenders, which include units of JPMorgan Chase & Co., Deutsche Bank AG and HSBC Holdings PLC, are objecting to a Bank of Russia proposal that would limit the Russian units to depositing 20 percent of their capital abroad at their parent companies, according to a document posted on the regulator's website last week. Currently there is no limit.

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Most of the local units would immediately be in violation of central-bank mandated capital ratios if the rules were imposed, according to a summary of the banks' criticism posted by the regulator. Several, including Nordea Bank AB and Commerzbank AG, argued that it would create "unequal" conditions for local lenders and foreign-owned subsidiaries.

The central bank proposed the restrictions in response to the threat of new sanctions against Russia from the U.S. and Europe, which it fears could cut off local units' access to money held abroad, two bankers involved in the talks said. The banks claim the rule could force them to reduce their lending in Russia, the people said. They asked not to be identified as the talks are private.

Tightening sanctions

Foreign and domestic banks have been jittery this month as the U.S. Senate considers new sanctions against Russia for interfering in American elections. Among the proposals is a ban on using dollars for some of the country's biggest banks. Local banking bonds have handed investors a loss of 5.1 percent in dollar terms this month, the worst of any sector domestically, according to a Bloomberg Barclays index.

The central bank is working on a final version of the rule while "taking the banking community's opinion into account," the regulator's press service said by email Aug. 21. It didn't elaborate on the goal of the restrictions or on the fate of the proposal.

Raiffeisen sees deposits with its parent bank as the least risky instrument available to it, and uses such funds to manage capital requirements across the group, according to its local unit's press service. The lender has enough capital in Russia to meet mandatory ratios in the short- to medium-term even if the rule is implemented in its current form, the bank's service said by email.

Representatives of Russian units of Deutsche Bank, Goldman Sachs and JPMorgan declined to elaborate on the document published by the central bank. Spokesmen for Credit Suisse, UBS Group AG, HSBC and Commerzbank declined to comment. Citibank and Nordea didn't respond to a query.

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