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TECHNICAL ASSISTANCE REPORT—OPERATIONAL ASPECTS OF ESTABLISHING AN ASSET MANAGEMENT COMPANY

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OPERATIONAL ASPECTS OF ESTABLISHING AN ASSET MANAGEMENT COMPANY

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March 2015

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PREFACE

At the request of the Magyar Nemzeti Bank (MNB), a technical assistance (TA) mission from the Monetary and Capital Markets Department (MCM) of the International Monetary Fund (IMF) visited Budapest during January 14–16, 2015, to assist the MNB in developing an operational framework for a recently created asset management company (AMC), the Magyar Reorganizációs és Követeléskezelö (MARK).[1]

In carrying out its work, the mission met with MNB Deputy Governor, Dr. Ádám Balog; Dr. Csaba Kandrács, Chief Executive Officer of MARK; Mr. Dániel Palotai, Executive Director of the MNB; and MARK and MNB staff.

This aide-mémoire summarizes the discussions held during the mission and its main conclusions. It was discussed ad referendum with the Deputy Governor, Dr. Balog, Dr. Kandrács, and officials of MARK and the MNB. The report will be subject to review in the IMF and the final version will incorporate comments received from the authorities, as well as from IMF reviewers.

The mission would like to express its gratitude to the Deputy Governor, Dr. Balog, Dr. Kandrács, Mr. Palotai, and staff of the MNB for the fruitful discussions that underpin our work, and for their hospitality, which greatly facilitated the work.

[1] The mission comprised Messrs. Alvaro Piris (MCM, mission chief) and Arne Berggren (short-term expert).

Table 1. Hungary: Summary of Recommendations

Topic/ Recommendation	Ref.	Priority	Timeframe
Develop a clear mission statement focused on: - MNB's broad policy objective - MARK-specific mandate to buy assets of specified nature with sole objective of maximizing value - Mission to restructure and divest assets within maximum of ten years - Initial ownership and funding from MNB, not precluding private investment in future - Aim to achieve a market-referenced long-term rate of return for the shareholder - MARK will operate entirely on commercial principles, meeting the highest international standards of business conduct and integrity	11	High	Near-term
MNB to fully delegate asset management functions and operational decisions to MARK	12	High	Immediate/start of operations
Ensure that no obstacles exist to sale of shares or private funding of MARK	14	High	Near-term
Establish a governance structure enabling MARK to meet its objectives and manage distressed assets without interference in business decisions	14	High	Near-term
Reconsider the composition of MARK's Supervisory Board and Board of Directors to include a majority of well-qualified Directors without roles in MNB	16	High	By start of operations
Separate the roles of Chairman of the Board of Directors and CEO, making the Chairman a non-Executive Director	16	Medium	By start of operations
Consider refinancing with market-based funding or share sales in MARK	19	Medium	Once positive cash flows established
Adjust the maturity structure and currency composition of MARK liabilities to mirror expected cash flows	20	High	After internal evaluation of acquired assets
Ensure adequate equity funding to absorb valuation adjustment and operating losses in initial years of operation.	20, 26	High	Near-term
Sale of assets to MARK should be voluntary on the part of the banks	22	High	Continuous (policy is in place)
MARK to offer prices consistent with an expectation of making a reasonable rate of return for its shareholder	22	High	Near-term (policy under development)

Table 1. Hungary: Summary of Recommendations (concluded)

Topic/ Recommendation	Ref.	Priority	Timeframe
Develop criteria for internal valuation of real estate	24	High	Near-term
Undertake an asset-by-asset valuation exercise in the first months of operations, and prepare a starting balance sheet reflecting these	26	High	Start of operations
Put in place procedures enabling regular updating of valuations as new market information becomes available	26	High	Medium-term
Consider seeking exceptional powers enabling MARK to circumvent delays in legal framework	30	Low	Near-term
Develop remuneration policies for staff consistent with commercial focus and finite life of operations	31	High	Medium-term
Consider legal protections for staff	31	High	Before operations start

I. INTRODUCTION

1. **The Hungarian economy is recovering gradually from a sharp recession**. In the run-up to the global financial crisis, bank lending was buoyant and lending standards slipped, leading to a sharp correction and deleveraging. Overall, credit growth was still contracting slightly in 2014, while substantial deleveraging has occurred in the banking sector (for example, the loan-to-deposit ratio declined from about 150 percent in 2008 to 95 percent at end-2014). While nonperforming loans (NPLs) stabilized in 2014 at around 16 percent, they are still rising in commercial real estate projects, reaching 29 percent in June 2014. Loan restructuring may well obscure additional distressed loans; if these were taken into account, the corporate NPL ratio would be higher still.

2. **Restoring credit growth has become a central policy objective, seen as key to economic recovery and effective monetary transmission**. The MNB consider that banks are solvent and generally well provisioned, and cite reluctance to sell foreclosed collateral into a "dysfunctional" commercial real estate market and inefficient foreclosure and insolvency processes as the principle reasons that NPLs are not written off. An oversupplied market (vacancy rates for Budapest office space exceeds 18 percent) and very few transactions suggests prices may have not fallen sufficiently to encourage new demand. It is also unclear to what extent prices may rise as the economy recovers. The overhang of commercial real estate NPLs are considered an obstacle to the resumption of lending. With this in view, the MNB has established the Magyar Reorganizációs és Követeléskezelö (MARK), an asset management company (AMC), in November 2014 with the purpose of buying commercial real estate loans and foreclosed collateral from the banks, on the basis of voluntary sales, in order to free up lending capacity.

3. **MARK is wholly owned and will be funded by the MNB**. The AMC has been established as an independent company that will not have operational links to the MNB. MARK has a target of HUF 300 billion (US$1.2 billion, 1.3 percent of GDP) of asset purchases at transfer value, compared to a potential portfolio estimated to have a book value of HUF 800 billion. Purchasable loans must be overdue by at least 90 days or have been restructured, have been on the bank's balance sheet prior to end-2008, and minimum size limits on individual transactions apply. The latter implies relatively few loans (<500) are expected to account for the bulk of transactions. The lifetime of the AMC has been set at a maximum of 10 years. Discussions between the MNB and European regional institutions on the role and functions of MARK are ongoing.

4. **Recent legislation significantly affects the banking sector**. The Settlement Act requires banks to compensate borrowers for "unfair lending practices" on a retroactive basis for past unilateral contract modification and for the use of bid-ask spreads in calculating foreign currency loan disbursements. The Fair Banking Act restricts unilateral interest rate and fee increases by banks, regulates the information provided to borrowers, and allows borrowers to terminate a loan contract under certain conditions. To reduce the stock of

households FX loans, legislation was passed converting foreign exchange denominated mortgages to Hungarian forint loans, effective February 1, 2015, at the exchange rates that prevailed on November 7, 2014. The Settlement Act implies substantial costs for the banking system—MNB estimate a total cost of approximately HUF 950 billion (US$3.8 billion), of which the banking sector will bear close to HUF 800 billion (of which about HUF 200 billion is covered with existing provisions). MNB consider that the banking system will remain solvent, albeit with reduced resilience. Finally, a "funding for growth" scheme whereby banks benefit from subsidized MNB funding for on-lending to SMEs has been in place for more than a year, but is not related to clearing NPLs, while the public sector has increased its presence in banking markets by acquiring two private banks and is taking a stake in a third, and has integrated savings cooperatives under the development bank.

II. Advantages and Disadvantages of Centralized Asset Management Companies

5. **Centralized, publicly-owned AMCs have historically been used to manage the legacy of bad assets left after banking crises**. While the MNB's ultimate purpose is not crisis management, similar challenges will arise in establishing an AMC and managing large numbers (and high values) of commercial real estate loans and foreclosed properties.

6. **Managing distressed assets can place a significant burden on banks**. Managing NPLs requires skills in loan restructuring, foreclosure, and property management and sales among others. Banks often lack capacity to handle distressed assets in large volumes, which can generate substantial drains on management time and financial resources. Relieving banks of these tasks can allow them to focus on core business lines and contribute more effectively to economic recovery. Finding private solutions—sale to specialized investors for example—may not be feasible if the volume of distressed assets is large or legal and capital market impediments are significant. Similarly, "in-house" AMCs within banking groups may help concentrate specialist skills, but will not reduce the financial burden or, in all probability, the investment of senior managerial time for the consolidated group.

7. **Centralized AMCs have advantages in managing large amounts of distressed assets**. Key factors include:

- Concentrating ownership of various banks' loans to individual borrowers gives more leverage over borrowers and allows for easier, more effective management of (i) foreclosure; (ii) creditor coordination; (iii) loan restructuring ; and (iv) operational restructuring of the borrower to restore viability.

- Concentrating scarce human resources in managing distressed assets and corporate restructuring from across the financial industry.

- Uniform valuation criteria can be applied to similar loans and collateral, that can help markets in distressed loans and the underlying real estate collateral find a floor, and initiate a price-discovery process.

- Economies of scale or scope can be realized, for example, through gaining experience with restructuring, planning the sequencing of foreclosures and sales, or scope to securitize or structure assets in bundles attractive to investors. Creative and innovative strategies for generating value can be developed.

- The AMC can be given special legal powers if the legal system creates impediments or delays to debt workouts, restructuring negotiations or foreclosures.

8. **Nonetheless, AMCs present substantial operational risks that can undermine effectiveness and lead to substantial losses for the public sector**. The principle areas of concern include the institutional factors and financial issues shown in the text table. The rest of this report discusses ways of mitigating the risks stemming from these factors, through setting appropriate objectives and institutional arrangements, and good operational practices.

Operational risks: institutional factors
Political interference or pressures from influential players Unclear objectives and priorities Inadequate internal organization Difficulties attracting experienced, skilled staff Accountability, transparency and the media
Operational risks: financial
Inappropriate financial structure given expected cash flows Inflated acquisition prices Inadequate documentation Dysfunctional legal framework for workout/ restructuring

III. Setting the Right Objectives

9. **A clear mandate and well-defined objectives are critical for the effective functioning of AMCs**. Regardless of the ultimate policy objective behind the establishment of AMCs, once established, the institution should focus single-mindedly on maximizing the value of the assets it has acquired. Framing a clear value-maximization objective serves several purposes, by:

- Minimizing the risk of financial loss for the public sector;

- Establishing clear criteria on which the success of the AMC, its management, and staff can be judged, enhancing transparency and accountability and helping to insulate the AMC (and its ultimate owners) from political and interest group pressure;

- Providing clear direction for the development of AMC financial policies on criteria for sale or retention of assets, valuation, restructuring, etc.;

- Providing a commercial focus that can attract staff with the right skills, with market-based incentive packages; and

- Helping establish the AMC as a credible market player in negotiations with borrowers and potential acquirers of assets.

10. **Multiple or unclear objectives can reduce the effectiveness of the AMC**. AMC's put public funds at risk and directly affect private economic interests. It is to be expected that affected interests will argue for their case through the media or elected representatives. Similarly, arguments will be made for using the AMC to achieve other public policy objectives (e.g. maintaining employment, or preserving historical buildings) and media scrutiny of financial results and particular decisions may be intense. These pressures will be harder to resist if the AMC cannot appeal to a mandate that is clear and commercially-oriented. To the extent that policy objectives other than maximizing value or pressures from influential parties affect decision-making, financial results will be poorer. This will likely amount to an opaque and inefficient means of achieving policy or political objectives, impede achieving the ultimate policy objective behind creation of the AMC, delay the resolution of bad assets and again open the AMC to new criticism.

11. **MARK should develop a short, clear mission statement focused on maximizing the value of acquired assets**. The mission statement could include a short and precise explanation why MNB has established the AMC and what it wants to achieve. The statement could then go on to specify:

- MARK's specific mandate (to acquire assets of specified characteristics, of up to a specified total amount, at commercially-based prices not higher than what is acceptable to European institutions);

- That the mission of the AMC is to restructure and ultimately divest the assets within a period of 10 years;

- That the AMC will initially be owned and fully financed by MNB, without precluding the option of market financing or sale of equity shares in the AMC in the future;

- That MARK shall aim to achieve a long-term rate of return on the MNB's investment based on a market reference representing a viable alternative investment strategy—e.g. government bond yields of the appropriate maturity plus a risk premium; and

- That the AMC has no other objective than maximizing the value of the assets and will perform all its activities according to commercial principles, meeting the highest international standards of business conduct and integrity.

12. **The ultimate monetary policy objectives behind the creation of MARK should not affect the day-to-day decisions of MARK staff**. The MNB objective of strengthening monetary transmission is addressed through the acquisition of the assets (subject to later review of the strategy's success). Managing the assets and maximizing their value once acquired is a separate problem with no direct connection to monetary policy—for which

responsibility should be fully delegated to MARK. Expressing MARK's narrower asset management objectives in a short statement that can be discussed publicly early in the institution's life will help protect both MARK and the MNB from the inevitable pressures that will arise as hard decisions are taken in the course of the AMC's activities.

IV. Governance

13. **The governance framework for the AMC should aim to balance the need for operational independence and accountability**. To achieve these objectives, a strong framework reflecting the commercial orientation of the firm is needed. As public funds will be put at risk, operational independence must be complemented with arrangements ensuring transparency and accountability to the AMC's shareholder and the general public. A first element of this framework is a clearly expressed objective and mandate, as discussed above. Other important features include:

- A Board of Directors made up of knowledgeable, respected outsiders with full powers to set policies and procedures, review internal procedures and management proposals, and independent of policy-making bodies and affected economic interests. The Board should include relevant specialized knowledge and market experience—e.g. former bankers or businessmen active overseas (or otherwise clearly independent of the affected economic interests), or legal, distressed debt or other relevant knowledge.

- Separate budget and staffing, with independence to set remuneration policies.

- Published, externally audited financial reports and internal audit and risk management arrangements similar to those required of private financial institutions.

- Capabilities and policies for managing media relations.

14. **MARK is wholly owned and will be fully financed by the MNB, at least initially**. Public sector ownership of real assets or loans is generally considered a fiscal function that can potentially generate conflicts with core monetary policy objectives. The MNB should give due consideration to how it will judge that its objectives in setting up MARK have been achieved, and ensure that no formal obstacles exist to "exit" through sale of shares in MARK (or refinancing MNB loans in the capital markets). While MNB's institutional independence may help protect MARK from some political pressures, there is conceivably scope for conflict between an AMC's value maximization objectives and the broader policy goals of the MNB. The governance structure needs to ensure that MNB can play its role as shareholder and that MARK can meet the objectives in its mission statement with full delegation of responsibility and without interference in business decisions.

15. **MARK's formal governance institutions are in line with private financial enterprises in Hungary**. MARK will have a Supervisory Board, with oversight and audit functions, and a Board of Directors to set strategic direction and approve policies. The chief executive officer (CEO) will be the Chairman of the Board of Directors. As currently established, the Supervisory Board will comprise three members, all existing Executive Directors of the MNB, who will retain their current functions. The Board of Directors will comprise three members, all of whom (including the CEO and Chairman) are external members of the Monetary Council (the monetary policy-setting body of the MNB). While this composition will ensure the shareholders interests are defended, it does not offer MARK sufficient insulation from pressures that may be brought to bear on MNB or from broader concerns driven by macroeconomic policy objectives, nor does it insulate MNB sufficiently from criticism or pressure that may accrue to MARK or fully limit MNB's role to that of a shareholder. Finally, while the external members of the Monetary Council may have some relevant experience from previous jobs, the Board members overall may not bring the commercial outlook and specialist knowledge that could maximize MARK's effectiveness and enable a thorough oversight of policies and management's activities.

16. **The composition of MARK's governing Boards should be reconsidered**. The mission strongly urges that consideration be given to (i) MNB appointing respected, knowledgeable outsiders with backgrounds in relevant commercial fields to a majority of positions on both Boards; and (ii) separate the functions of Chairman of the Board of Directors and CEO, making the Chairman a non-executive role. If needed, additional formal arrangements can be made to ensure accountability to MNB as shareholder (for example, periodic presentations to the Monetary Council with the opportunity to ask questions). Similarly, information requirements can be set to ensure that MNB has grounds for assessing whether its monetary policy objectives in setting up the AMC are being achieved.

17. **Other elements of the governance structure appear robust**. MARK will be subject to regulation and supervision as a financial company (and has a license under Hungarian law, as it will hold loan receivables, although it will not have any deposit-taking or management functions), and is also subject to audit by the State Audit Office. MNB has accountability obligations to parliament, and interest in and questions on MARK and its activities should be expected. MARK will not have access to supervisory data, and should not, in order to ensure it does not have an unfair advantage over other market actors. MARK's internal organization mirrors that of private financial enterprises, with a management team comprising, in addition to the CEO, a chief business officer (transactions and portfolio management), a chief financial/operating officer (reporting and administrative functions), and a chief risk officer (loan approvals, valuations, and risk management). Risk, audit, asset management, and financial and liquidity committees will report directly to the Board of Directors, while internal audit will report to the Supervisory Board.

V. FUNDING

18. **AMCs should operate with hard budget constraints, paying a fair rate for their funding**. Carrying loans or collateral on behalf of the state has an opportunity cost that should be explicitly recognized, and there are fair competition concerns also. More critically, the AMC should make decisions on sale, retention or restructuring of assets on commercial principles that adequately recognize the full costs of continuing to carry the assets.

19. **MARK's forint funding will be provided at a spread over the monetary policy rate**. Initial funding will be through the creation of reserve money in MARK's account. MARK could consider refinancing with market-based funding in the future. This would represent a disciplining device and a market test of MARK's operations, as well as serve as a signal of the commercial orientation of the AMC that will bolster its credibility. While this will be a weak test as long as the MNB retains full ownership, sale of shares in MARK should similarly be considered in the future and will strengthen the disciplining function of the non-equity funding.

20. **AMC liability structures should reflect the risk and expected cash-flow streams from realization of the assets**. Once operational, a full assessment of the assets acquired and a realistic assessment of when cash flows are likely to begin and strengthen should be undertaken relatively quickly. The maturity structure and currency composition of the liabilities can then be adjusted in accordingly, to avoid the need for large refinancing operations, particularly before positive cash flows can be shown. Adequate equity needs to be in place from the beginning, as the first years of AMC operations are typically loss-making and the risk requiring a capital injection should be avoided.

21. **The MNB plans to provide term funding to MARK**. In addition, MARK has already developed some working assumptions on the expected time to exit of different classes of assets to be acquired. As both rental and real estate sales in Hungary are typically either euro denominated or indexed to the exchange rate, MNB will provide some foreign currency funding, from international reserves. Interest rates charged on this funding will reflect the additional risk for MNB.

VI. TRANSFER PRICING

22. **Setting the right transfer pricing is critical to minimizing the risk of significant losses for the state, setting the right incentives and avoiding moral hazard**. Overpaying for assets will result in an opaque transfer of wealth to bank owners and leave the AMC unable to avoid making losses. Underpaying will decapitalize banks, working against financial stability and the banks' capacity to lend and take on risk. Transfers to the AMC should be voluntary on the part of the bank, while the AMC should offer prices consistent with market principles and an expectation of making a reasonable rate of return for its shareholders over the expected lifetime of the AMC. Establishing reasonable pricing based on market principles is typically not straightforward: markets for distressed receivables are

often thin or nonexistent, and markets in the underlying collateral can be very depressed compared to historical or long-term values due to economic conditions or excess supply created by previous overinvestment.

23. **MARK is developing a loan valuation model**. This is based on a valuation of the underlying collateral, the quality of documentation, and the cost of implementing various workout strategies. The value generated by the model will form the basis for the offered acquisition prices for portfolios of NPLs, underperforming restructured loans and foreclosed loans. Buying entire, or near-entire, portfolios allows a more comprehensive solution to the banks' problem (improving chances of achieving the MNB's ultimate objectives) while protecting MARK to some extent from "cherry-picking," whereby banks sell their worst assets and keep the ones that they consider to have higher recovery values. Only loans that meet defined minimum criteria (e.g., first ranked mortgages, with complete documentation among others) will be purchased as a part of portfolio transactions. Loans not meeting the criteria will be valued individually, with the portfolio valuation as a starting point and maximum, and further discounts to the bid price made to reflect the specific situation or imperfection of the loan file. Syndicated loans will similarly be valued on an individual loan basis.

24. **While the methodology is well thought out, criteria for internal real estate valuation have yet to be developed**. Considering that there are few transactions and relatively little market information on commercial real estate prices, a valuation methodology and process that can be applied consistently to different categories of real estate and loan portfolio valuations will be critical. Such a methodology and process would ensure equal treatment across banks. Banks will be asked to supply their own expert valuation and MARK will develop their own internal view also. MARK and MNB staff does not judge that the external valuations typically used by banks and accepted by auditors offer a fully reliable, conservative estimate. One example for an internal approach to valuation is to divide the market into geographical regions and functional segments, and set benchmark expected pricing or rental yields for each sub-market in this matrix, based on local conditions and internal expert judgment (geographical segmentation beyond Budapest may be less relevant in the relatively small Hungarian market). Criteria should be prepared well ahead of starting asset purchases, to allow for internal debate and challenge. As this will, in the end, be the most critical element in the internal valuation model, it will probably be the largest driver of financial risks taken on by MARK. There is a distinct risk of overpaying for assets, given the large slack in the commercial real estate market, and a conservative approach to real estate valuation should be taken.

25. **Two external checks exist: valuations from the recent asset quality review and the desirability of developing a methodology acceptable to European institutions**. The results of the European Central Bank-led asset quality review, which was extended to some non-single supervisory mechanism banks in Hungary, provided a first uniform approach to valuation of CRE loans and collateral. The results of this exercise should be reflected in

provisioning levels already, and are therefore unlikely to be binding in many cases. While MNB argue that the AMC project is a tool of monetary policy, and thus not subject to compliance with EU competition rules for state aid, this has not been finally decided. The authorities are therefore preparing a valuation methodology that they believe is consistent with competition rules. Finally, portfolio purchases will be at a price not exceeding net book value after provisions. For individual asset purchases, where MARK will not have access to data on specific provisions, the authorities argue the additional discounts from the portfolio purchase valuation will make the offer price sufficiently conservative and unlikely to exceed net book values for those assets.

26. **Regardless of initial valuation and purchase prices, MARK should undertake a thorough, asset-by-asset valuation exercise in the first months of operations**. The "starting balance sheet," against which future performance will be measured, should reflect these more thorough and comprehensive valuations and not the purchase prices. MARK should be established with sufficient equity capital to absorb losses that may need to be recognized from this process. After the initial exercise, valuations should be regularly updated as transactions occur and better, current market information becomes available and more complete. This is essential to ensure that decisions on individual asset sales, foreclosures, or loan restructuring can be made correctly, and for accountability purposes.

VII. Legal Framework and Powers

27. **Reforms to the legal and regulatory framework for corporate insolvency and management of distressed assets are being considered**. With assistance from the EBRD, a reform agenda is under discussion with the objective of reducing obstacles to sales of distressed assets, enabling debt restructuring, and making insolvency and foreclosure proceedings more nimble and flexible.

28. **Obstacles to market sales of distressed assets are significant**. They include the small size of the market for international investors, administrative burden and tax issues, exchange rate volatility, regulatory uncertainty for investors, and persistent "price gaps" between buyers and sellers (suggesting the market is not clearing efficiently). Borrower consents are not required for the sale of NPLs.

29. **Insolvency proceedings are typically ineffective in restoring debtor viability**. Enforcement actions and creditor efforts to agree on debt restructuring are easily subjected to delays by the debtor through triggering insolvency proceedings. Foreclosure cannot happen under insolvency, typically provoking creditors to move rapidly to initiating liquidation, which also takes substantial time. MARK estimate that from recognition of an NPL to effective recovery of value from sale of collateral takes an average of four years for commercial real estate (with some variation by category of asset), while an agreed foreclosure and sale of collateral may take up to three. A framework for out-of-court settlements introduced some years ago has not been taken up by market participants, while

there is a lack of specialized knowledge among judges and court professionals. There is, however, not yet a consensus on the need for reform, and MNB anticipate that the process of building agreement and passing legislation could take up to five years.

30. **On this basis, MARK will operate on the assumption of an unchanged legal framework**. This is reflected in MARK's draft valuation methodology through parameters reflecting assumptions on recovery rates on collateral and delays stemming from insolvency and liquidation proceedings. While consideration could be given to seeking exceptional legal powers for MARK to circumvent some of the legal obstacles noted, MNB and MARK staff felt the current system was functional, if inefficient. They noted that although the gains from exceptional powers could be significant, they would be outweighed by the costs of securing the powers by diverting resources and political capital away from achieving fundamental reform in the longer term. Furthermore, granting special powers could lead to conflicts of interest or competition concerns should private investors take an interest in MARK in the future.

VIII. Selected Operational Issues

31. **A number of operational challenges in running AMCs require consideration prior to beginning active operations**. Some key elements include:

- *Remuneration policies for staff*: AMCs are in the "business of going out of business," and have a value maximization objective comparable to private firms. This makes public sector remuneration packages based on strong job security and relatively flat salary structures fundamentally unsuitable. In order to attract suitably experienced staff with appropriate financial skills and a commercial outlook, willing to work in an institution with a finite life, pay packages can include a bonus component that can be related to performance (with deals subject to proper management and Board oversight to ensure value for the AMC is not forsaken in the interest of staff). Current MARK employees are paid on the MNB payscale, which is considered competitive. There are no apparent legal or administrative obstacles to considering other remuneration packages.

- *Legal protections*: AMC staff and officers should be protected from legal suit in the good-faith execution of their duties. Some debtors may wish to exert pressure on staff to make decisions in their interest by threatening legal action against them personally. Ideally, lawsuits should be possible against the AMC as a corporation only; if this is not possible, arrangements should be made for MARK to cover legal costs for any staff that is sued.