

Bank of NY, Russia to discuss legal settlement

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By Simon Shuster

MOSCOW (Reuters) - The Bank of New York Mellon (BK.N: [Quote](#), [Profile](#), [Research](#)) said on Tuesday it will meet with the Russian government to discuss settlement of a \$22.5 billion lawsuit Russia has leveled against it.

The government, prompted by its need to raise money and cut expenses amid the economic turmoil, is ready to settle the case for \$800 million, Kommersant reported on Tuesday.

"We are talking about a political decision, which is fully logical in a period of global financial crisis," the business daily quoted a source in Prime Minister Vladimir Putin's government as saying.

In response to the report, the bank said in a statement it was encouraged by the invitation and looked forward to meeting with the government. It added, however, that any settlement would have to reflect the "meritless nature of the claims."

Steven Marks, the lead attorney for the government, said he will continue to press for a judgment against the bank at the next hearing on March 10 and beyond.

"The bank's attitude reflects a continued denial of the government's commitments to this case, the merits of this case. We have every intention of moving it forward to a final judgment," Marks told Reuters.

Since May 2007, Russia has been seeking compensation from the U.S. bank after a former vice-president helped transfer \$7 billion out of Russia in the late 1990s through Bank of New York accounts.

The U.S. bank rejected an initial offer to settle for \$600 million before the case was filed in 2007. Its spokesman declined to comment on the settlement value of \$800 million reported by Kommersant.

A source close to the bank said that talks with the government should take place in the coming weeks.

'DRAWN OUT NEGOTIATIONS'

The bank -- which won \$3 billion in U.S. taxpayer money as relief from the economic crisis -- is not likely to settle for \$800 million, said Mark Fitzgibbon, head of research at Sandler O'Neill & Partners LP.

A payout of this size to the Russian government would mean a loss to investors, including the taxpayers, of around \$0.47 per share in earnings, he added.

The Bank of New York Mellon, the world's largest custodian of financial assets, has also won the rights to oversee much of the U.S. government's \$700 billion emergency rescue plan for the finance industry.

"We suspect that there will be much negotiation before a final settlement is reached," Fitzgibbon wrote in a note to investors. The bank's stock was trading at \$22.30 at 7 p.m. EST, up 4.5 percent.

ORDER TO SETTLE

According to Kommersant, Sergei Sobyenin, Putin's chief of staff, had ordered that the case be settled out of court.

The offer comes as Russia faces a budget deficit of 8 percent this year, as well as the need to raise cash and focus spending on emergency aid to Russian companies, many of which are reeling from the effect of the financial crisis.

Its ability to collect any damages has also been disputed.

The bank vowed in April that it would use all its legal resources to resist the enforcement of a ruling against it. This would force Russia into a lengthy and expensive process of trying to seize the bank's assets all over the world.

"The Bank of New York does not have accounts on Russian territory that we could make a claim upon," the government source told Kommersant.

(Editing by David Cowell)

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