IP/09/302

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State aid: Commission authorises amendment of Italian scheme to inject capital in credit institutions

The European Commission has approved, under EC Treaty state aid rules, amendments to the Italian recapitalisation scheme which was approved by the Commission on 23 December 2008 (see IP/08/2059). The changes essentially give banks another option for remunerating bonds. The modified scheme is consistent with the Commission's guidance on support measures for banks during the financial crisis (see IP/08/1495 and IP/08/1901). It provides in particular for an adequate remuneration of the state intervention and appropriate incentives for an early exit of the aid scheme. The modified measures are therefore compatible with Article 87.3.b of the EC Treaty allowing aid to remedy a serious disturbance in a Member State's economy.

Competition Commissioner Neelie Kroes commented: "The Italian authorities have asked permission to modify the design of their scheme to make it more attractive to sound banks that are willing to use the state capital only for a very short period of time. The modified scheme ensures an adequate remuneration for the state and encourages early exit. It is in line with EU rules.

The scheme approved by the Commission on 23 December 2008 enables Italy to subscribe subordinated debt instruments, qualifying as bank core tier 1 capital. Only fundamentally sound banks (according to their credit default swaps spread level, their ratings and a complementary assessment by the Bank of Italy) are eligible for such recapitalisation. Capital endowment is within 2% of the banks' risk weighted assets and in principle within a level of 8% of tier 1 capital. Remuneration conditions include an initial coupon with fixed step-up clauses, increases in remuneration linked to dividend payments and to the financing cost of the Italian state as well as a redemption price premium increasing over time. Conditions relating to dividend policy, management remuneration, behavioural commitments and an ethical code are also included in the recapitalisation scheme.

The main modification to the previous scheme is the introduction of an alternative remuneration option with a higher initial coupon and a higher annual level of the coupon until 2014 in exchange of a lower reimbursement price fixed at the nominal value until June 2013. In addition, the possibility for the State to take part in recapitalisations if there is a participation of at least 30 % of private investors and on equal terms with the latter has been introduced. Adequate reporting obligations to the Commission are embedded in the scheme to ensure proper monitoring of the measures.

The Commission concluded that the revised capital-injection scheme is an appropriate, necessary and proportionate means of restoring confidence to financial markets and enabling Italian banks to maintain lending to the real economy.

In particular, the Commission concluded that the level of remuneration is adequate and ensures that the State involvement in the banks' capital will be as brief as possible.

The non-confidential version of the decision will be made available under the case number N97/2009 in the State Aid Register on the DG Competition website once any confidentiality issues have been resolved. The latest publications of state aid decisions on the internet and in the Official Journal are listed in the State Aid Weekly e-News.