IP/08/1630

Brussels, 4th November 2008

State aid: Commission approves Spanish fund for acquisition of financial assets from financial institutions

The European Commission has approved, under EC Treaty state aid rules, a Spanish scheme intended to stabilise financial markets by providing liquidity to eligible financial institutions. Following close cooperation with the Spanish authorities and the submission of a comprehensive set of commitments to ring-fence the application of the measures, the Commission found the scheme to be in line with its Guidance Communication on state aid to overcome the current financial crisis (see IP/08/1495). The measure constitutes an adequate means to remedy a serious disturbance in the Spanish economy while avoiding undue distortions of competition and is therefore compatible with Article 87.3.b. of the EC Treaty. In particular, the package provides for non-discriminatory access, is limited in time and scope and foresees adequate safeguards to minimise distortions of competition.

Competition Commissioner Neelie Kroes said: "Thanks to extensive and fruitful cooperation between the Spanish authorities and the Commission, the Spanish fund for acquisition of financial assets has been properly designed to boost market confidence and avoid distortions of competition. The decision, once again, shows that state aid rules are part of the solution for the financial crisis."

On 10 October 2008, the Spanish authorities notified a measure intended to stabilise the financial markets and to address the malfunction of the medium-term funding market for banks. The measure consists of reverse auctions with a government-sponsored fund purchasing assets (i) outright or (ii) on a temporary basis via so-called repurchase agreements (Repo).

After a series of exchanges and discussion with the Commission on the details of the implementation, they submitted on 3 November a complete list of commitments. These commitments address important issues raised by the Commission and aim at limiting distortions of competition.

Outright purchase of assets

So far, the Commission had been reluctant to allow Member States to buy financial assets from banks outright, as the credit crisis makes it difficult to value assets properly and there is a risk to provide undue advantages to banks. However, the Spanish measure has been designed specifically to avoid such distortions of competition, in so far as the government-sponsored fund can only purchase AAA rated covered bonds through an auction. These covered bonds have very special characteristics which significantly limit the credit risk for the government-sponsored fund, while providing liquidity for participating banks.

Essentially, in a covered bond the investor has recourse to both the underlying asset pool and the issuer (the bank). As a result, the credit risk of a covered bond is much lower than other financial assets, and this typically (although not always) results in the bonds' being assigned a very high credit rating. The auction design was finally conceived to enhance price transparency and it is expected that the return for the State will be substantial.

Temporary purchase of assets (Repo)

The measure also contains a temporary re-purchase element where the government-sponsored fund buys highly-rated covered bonds or asset backed securities from the banks (minimum AA). The banks commit to re-purchase those assets at a pre-fixed price at a later date. The measure is economically equivalent to a collateralised loan, thus again limiting the credit risk for the fund, while at the same time providing much needed liquidity for Spanish banks.

Well- targeted measures

The Commission found that the scheme and the commitments constitute an appropriate means to restore confidence as regards the medium-term liquidity provision for Spanish banks. It considered that the measures are well-designed and that interventions will be limited to what is necessary to help achieve the recovery of the Spanish financial sector.

Finally, Spain has committed to re-notify the scheme after six months and to report to the Commission every six months on the implementation of the scheme. This will enable the Commission to verify that the measures are not maintained when the financial crisis is over.

The non-confidential version of the decision will be made available under the case number NN 54/2008 in the State Aid Register on the DG Competition website once any confidentiality issues have been resolved. New publications of state aid decisions on the internet and in the Official Journal are listed in the State Aid Weekly e-News.