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By Boris Groendahl
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Austria's governing parties broke new ground in Europe by approving a law that imposes losses on holders of state-guaranteed debt owed by nationalized Hypo Alpe-Adria-Bank International AG.

The parliament in Vienna approved a law proposed by Finance Minister Michael Spindelegger last month that will break up Hypo Alpe. One part will be sold, while another will wind down 18 billion euros (\$24 billion) of assets over a period of years. Opposition lawmakers blasted the law, demanding that the bank be sent into insolvency to limit costs for taxpayers.

“This is about whether you want to protect taxpayers or creditors, taxpayers or investors,” Green Party opposition parliamentarian Werner Kogler said. “This effort means the most expensive solution for taxpayers. Insolvency is the right thing to do because those investors should have known what they were getting into.”

The Austrian law is bypassing a guarantee by the state of Carinthia and forcing losses on subordinated creditors of Hypo Alpe, a bank that has cost taxpayers billions to bail out. In March, Spindelegger ruled out putting the nationalized lender into insolvency, sparing holders of about 11 billion euros of the bank's senior bonds, and pledged instead to seek contributions from junior creditors and Hypo Alpe's former owners, among them Bayerische Landesbank.

Insolvency Preferred

While about 70 percent of Austrians say they'd prefer to let the bank go insolvent, the move to void 890 million euros of state-guaranteed debt has drawn criticism from


rating companies and the International Monetary Fund. The measure risks damaging trust more broadly, even as the government is presenting it as an isolated case, the IMF said last week.

On top of the state-guaranteed debt, the law also voids 800 million euros of loans Hypo Alpe received from BayernLB after a first tranche of state aid in late 2008 and in the run-up to the emergency nationalization in December 2009. BayernLB said the measure amounted to expropriation and was unprecedented in Europe.

After approval in parliament, the Hypo Alpe law will become effective once signed by President Heinz Fischer and published in the country's Official Journal. Fischer has said he will review the law's constitutionality thoroughly.

Hypo Alpe has cost Austrian taxpayers 5.5 billion euros since its rescue in 2009, and more than 3 billion euros are still expected to be needed to fund its wind-down.



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