Oesterreichische Clearingbank AG (OeCAG)

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Abstract

In October 2008, Euro area countries adopted a joint framework to guide national policies combatting the effects of the financial crisis. In Austria, this led to the enactment of a number of measures and amendments, including the Interbank Market Support Act (Interbankmarktstärkungsgesetz, "IBSG"). IBSG called for the establishment of a new clearing bank to facilitate interbank lending, and permitted the Minister of Finance to guarantee losses of the clearing bank up to €4 billion and up to €5 billion of newly issued short term securities. The clearing bank, Oesterreichische Clearingbank AG (OeCAG), was owned and capitalized by Austrian banks, and was open to participation from all credit institutions and insurance companies. Through regular auctions, OeCAG matched available deposits to demands for credit for fixed terms. Should a loan default cause OeCAG's regulatory capital to fall below legally required levels, the Austrian government's guarantee would be triggered. Over the lifespan of the bank, 310 auctions were conducted, allotting €22.5 billion and $1.5 billion. After being extended by one year, the guarantee scheme authorized by IBSG expired on December 31, 2010, and OeCAG closed shortly thereafter. None of the government guarantees were used.

Keywords: credit guarantee, clearing bank

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Oesterreichische Clearingbank AG (OeCAG)

At a Glance

Following the declaration of a joint action plan for EU Member States, in October 2008 Austria enacted a number of measures in response to the financial crisis. Included in this framework was the Interbank Market Support Act (Interbankmarktstärkungsgesetz, "IBSG"), which targeted disruption in the interbank market. IBSG was permitted by the European Commission under Article 87(3)(b) of the EC Treaty. Under IBSG, the Austrian government called for the establishment of a clearing bank that would borrow and lend funds on the interbank market. The clearing bank would be owned by Austrian financial institutions.

Summary of Key Terms	
Purpose: To strengthen the interbank lending market by establishing a privately owned clearing bank with a government guarantee to meet credit demand.	
Announcement Date	October 27, 2008
Operational Date	October 27, 2008
Date of First Guaranteed Loan Issuance	None. No guarantees issued.
Issuance Window Expiration Date	Originally December 31, 2009; later extended to December 31, 2010
Program Size	€4 billion for loan losses; €5 billion for guarantees of short term securities
Usage	310 auctions conducted, allotting €22.5 billion and $1.5 billion. No guarantees were called on.
Outcomes	None. No guarantees used.
Notable Features	Guaranteed debt issued by clearingbank

Accordingly, the Austrian credit institutions established Oesterreichische Clearingbank AG (OeCAG) with €180 million of equity capital raised by the banks. Under IBSG, the government pledged to cover up to €4 billion in OeCAG losses, should loan defaults by the clearing bank's borrowers result in its regulatory capital falling below legally required levels. In addition, OeCAG was permitted to seek government guarantees on newly issued securities, provided they had a maturity of one year or less. This guarantee was capped at €5 billion. OeCAG was required to charge market based fees and interest rates, and was subject to a 50 bps fee charged for government guarantees.

OeCAG conducted regular auctions in order to match available deposits with demands for credit. Over the lifespan of the bank, 310 auctions were conducted, allotting €22.5 billion and $1.5 billion. Following a one year extension, IBSG expired on December 31, 2010 and OeCAG closed shortly thereafter. None of the government guarantees were used.

Summary Evaluation

Evaluations of OeCAG point to declines in liquidity risk as evidence that OeCAG was successful in reinvigorating the interbank market. However, OeCAG alone was not able to restore the Austrian interbank market to its pre-crisis state.

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I. Overview

Background

Problems in the European interbank market were exacerbated by the collapse of Lehman Brothers in September 2008 (Posch et al 66). A number of unique conditions in Austria caused further disruptions to interbank lending. In response, the Austrian government passed a package of measures related to financial stability. This package included the Interbank Market Support Act (Interbankmarktstärkungsgesetz, "IBSG"), which established a state guaranteed clearing bank and a guarantee scheme for securities issued by other credit institutions, and the Financial Market Stability Act (Finanzmarktstabilitätsgesetz, "FinStaG"), which permitted state guarantees for individual institutions as part of a recapitalization process (136th Federal Act). The package was approved by the European Commission (EC) under Article 87(3)(b) of the EC Treaty, which permits state aid that remedies a serious disturbance in a member state's economy (Article 87 of the EC Treaty). For more information on the unique conditions in Austria and specific programs adopted in response, see appendix A.

Program Description

Under IBSG, the Minister of Finance could guarantee bonds issued by credit institutions and insurance companies with a maximum allowance of €75 billion under the scheme. Of the €75 billion, €4 billion were explicitly earmarked for guaranteeing the losses of a new clearing bank specifically established to stimulate the interbank market (136th Federal Act). IBSG stipulated that this new bank would be privately owned by credit institutions or insurance companies. Accordingly, Austrian banks established the Oesterreichische Clearingbank AG (OeCAG) and funded it with €180 million in equity. OeCAG's operations were managed by the Oesterreichische Kontrollbank AG (OeKB), 1which is also owned by the major Austrian banks. OeCAG, which was open to all credit institutions and insurance companies, received deposits and issued securities and matched these funds with demands for credit through regular auctions. Its business volume was capped at € 10 billion (Kalss 530).

According to IBSG, the government was authorized to provide two different types of guarantees to OeCAG. As previously stated, the government was liable for loan defaults up to €4 billion. This guarantee would be triggered if a loan default caused OeCAG's regulatory capital to fall below legally required levels, in which case the government would provide enough equity capital to restore the clearing bank's regulatory capital to the required minimum amount. In addition, the government could provide guarantees for securities issued by OeCAG. The government was authorized to guarantee up to €5 billion of OeCAG securities with a maturity of one year or less. Like all other credit institutions and insurance companies eligible for state guarantees under IBSG, OeCAG was subject to an additional guarantor fee of 50 bps for the assumption of liability by the government (Posch et al 67).

Outcomes

OeCAG was allowed to close at the end of February 2011 following the expiration of IBSG at the end of 2010. According to the Federal Ministry of Finance, OeCAG "conducted 310 auctions, comprising allotments of EUR 22.5 billion and USD 1.5 billion," and no government guarantees were used (Measures to Ensure Liquidity of the Interbank Market). OeCAG was particularly useful for small banks with limited access to the ECB's open market operations (Posch et al 69).

II. Key Design Decisions

1. **OeCAG was part of a broader package of measures adopted in response to the financial crisis.**

OeCAG was authorized by the Interbank Market Support Act (IBSG), which was passed alongside the Financial Market Stability Act (FinStaG) as part of the Austrian Financial Market Stability Package. This package of measures was introduced in response to the joint call from Euro area countries for national legislation aimed at restoring financial market stability (Austrian Financial Market Stability Package). FinStaG's primary authority involved strengthening the capital base of individual credit institutions, including outright capital injections, the acquisition of existing shares, and even the ability to obtain ownership rights of institutions in "exceptional cases".

2. **The Interbank Market Support Act permitted the Minister of Finance to provide guarantees to a newly established clearing bank.**

The Interbank Market Support Act (IBSG), which was established to strengthen the interbank market, allowed the Federal Minister of Finance to assume liability for "a company established for the exclusive purpose of borrowing funds from credit institutions or insurance companies via the interbank market in its own name and for its own account and loaning these funds to other credit institutions or insurance companies via the interbank market in its own name and for its own account." As part of this liability, the Minister of Finance was authorized to provide guarantees for short term securities issued as part of these transactions (136th Federal Act).

3. **The European Commission ruled that the guarantees for the clearing bank constituted state aid, but was permitted under Article 87(3)(b) of the EC Treaty.**

On October 31 2008, a little less than a week after IBSG was enacted, Austria notified the European Commission (EC) of its passage. In a letter dated December 9, the EC notified the Austrian government that though the guarantees under IBSG constituted state aid under Article 87(1) of the EC Treaty, they were permitted under Article 87(3)(b) of the Treaty (Austria: Measures and prolongations under the Law on the stability of the financial markets and on strengthening the interbank market for credit institutions and insurance companies). Article 87(3)(b) permits state aid "to promote the execution of an important project of common European interest or to remedy a serious disturbance in the economy of a Member State" (Article 87 of the EC Treaty). This decision was consistent with an earlier communication published by the EC, which stated that Article 87(3)(b) could be used as a legal basis for aid measures like general schemes to address the financial crisis (Communication 2008/C 270/02).

4. **The administrative side of OeCAG's business was handled by the Oesterreichische Kntrollbank AG (OeKB).**

IBSG stipulated that ownership of the clearing bank "shall be limited to credit institutions, insurance companies or the statutory bodies set up on the professional associations level for the representation of their interest" (136th Federal Act). In accordance with this, Austrian banks established Oesterreichische Clearingbank AG (OeCAG). OeCAG was funded by €180 million of contributions from the private sector and its operations were managed by the Oesterreichische Kontrollbank AG (OeKB), which was also owned by the banks and was also the central securities depository for Austrian institutions. Though the government did serve as a guarantor, the equity capital funded by the banks was meant to buffer initial loan losses. This in turn could "reduce the potential moral hazard at the expense of the Federal government and the taxpayers" (Kalss 531).

OeCAG conducted regular auctions at which both sides of the market submitted price and quantity bids. Demands for credit for fixed terms were only met if there was a corresponding offer from the deposit side; the bank did not perform any maturity transformation (Posch et al 67). IBSG required the clearing bank to "provide its services for a fee and at a lending interest rate, which shall be in conformity with market conditions" (136th Federal Act).

5. **The total size of the guarantee scheme to OeCAG was limited to €5 billion.**

The business volume, or amount of outstanding loans, for OeCAG was capped at €10 billion (Kalss 530), and a €5 billion cap was established for guarantees of OeCAG securities (Posch et al 67).

6. **Participation in OeCAG was open to all credit institutions and insurance companies.**

IBSG stipulated that the clearing bank would borrow funds "from credit institutions or insurance companies" and loan them in turn to "other credit institutions or insurance companies" (136th Federal Act).

7. **The Austrian government provided a guarantee on two components of the clearing bank's transactions – the short-term securities it issued and the loans it then made to borrowers.**

When issuing short-term securities, the clearing bank could elect for the government to assume liability as a guarantor (Posch et al 67). In addition, as part of its €75 billion budget for guarantees under IBSG, the Austrian government specifically earmarked €4 billion for guaranteeing the losses of OeCAG. Though this budget was reduced over the life of the finance facility, the reductions did not appear to affect the amount pledged to cover OeCAG loan defaults (Measures to Ensure Liquidity of the Interbank Market).

8. **OeCAG could receive deposits and issue short term securities.**

OeCAG acquired funds through deposits provided by banks eligible for participation or through the issuance of short term securities (Kalss 530).

9. **There was a one year maturity cap for eligible securities issued by OeCAG.**

Securities issued by OeCAG had to have a maturity of one year or less in order to be eligible for the government guarantee (Posch et al 67). The government does not appear to have established minimum maturity requirements for eligible debt

10. **All currencies appear to have been eligible.**
11. **There does not appear to have been any cap on an institution's participation.**
12. **The government charged a 50 bps guarantor fee for participation.**

Under IBSG, all credit institutions and insurance companies owed the government a fee for its assumption of liability. IBSG explicitly stated that this fee also applied to the clearing bank (136th Federal Act). In practice, the 50 bps fee was charged in addition to the loan interest rate (Posch et al 67).

13. **There do not appear to have been any further conditions for participation.**
14. **The issuance window initially lasted until December 31, 2009, but was extended to December 31, 2010.**

The guarantee scheme under IBSG expired on December 31, 2010, at which point no new guarantees could be issued by the government. The scheme was extended by a year from its original expiration date of December 31, 2009. Existing guarantees remained in place until the bonds reached maturity, and as of June 2014 none remained outstanding (Measures to Ensure Liquidity of the Interbank Market).

III. Evaluation

Assessments of the program by Austria's central bank and scholars point to a decline in liquidity risk of Austrian banks as evidence that the OeCAG helped reinvigorate the interbank market (Posch et al 2009, Kalss 2010). Posch et al argue that despite these improvements, state guarantees were unable to totally restore the euro interbank market to its pre-crisis state (67).

IV. References

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V. Key Program Documents

Summary of Program

- Measures to Ensure Liquidity of the Interbank Market – *Austrian Federal Ministry of Finance describing the Interbank Market Support Act and OeCAG* https://english.bmf.gv.at/financial-sector/measures-liquidity-interbank-market.html

- Austrian Stability Programme for the period 2008 to 2013 – *Austrian Federal Ministry of Finance report detailing its stability program during the financial crisis* http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/20_scps/2008-09/01_programme/at_2009-04-21_sp_en.pdf

- National Rescue Measures in Response to the Current Financial Crisis – *ECB Legal Working Paper summarizing crisis response measures taken by EU Member States, including Austria's guarantee program* https://www.ecb.europa.eu/pub/pdf/scplps/ecblwp8.pdf?23b81a456ecb550cfcd1b693d4f10685

Legal/Regulatory Guidance

- 136th Federal Act – *Group of Austrian acts, including the Interbank Market Support Act (IBSG)* https://www.volksbankwien.at/m101/volksbank/m101_oevag/downloads/bonds_struk_anleihen/english_version_of_interbank_market_act.pdf

- Communication from the Commission (2008/C 270/02) – *Communication from the European Commission addressing state aid during financial crisis* http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52008XC1025(01)&from=EN

Key Academic Papers

- Measures by the Austrian Regulatory Authorities in Response to the Financial Market Crisis (Kalss 2010) – *paper analyzing the Austrian government's response to the financial crisis*. https://doi.org/10.1017/S1566752910400026

- Crisis Management Around the World (Woll 2014) – *chapter comparing national responses to the financial crisis.*

Reports/Assessments

- EU Bank Packages: Objectives and Potential Conflicts of Objectives – *study by Austria's central bank comparing responses to the financial crisis across the EU.* https://ssrn.com/abstract=1734904

VI. Appendix A

In Europe, the interbank market was hit particularly hard by the global financial crisis. Unsecured interbank loans were charged high premiums, market liquidity dried up, and maturity terms shrunk throughout late 2007 and early 2008 before the interbank market largely ceased functioning following the collapse of Lehman Brothers in September (Posch et al 66). In Austria, financial institutions were affected by exposure to Lehman Brothers and Icelandic banks, as well as their activity in Central and South East European markets (Kalss 528).

In response to these conditions, Euro area countries convened at a summit in October 2008. The meeting resulted in a joint action plan calling for national governments to "improve market functioning over longer term maturities" through the introduction of guarantee programs for bank senior debt issuance (Declaration on a Concerted European Action Plan of the Euro Area Countries). In Austria, this call was met by the passage of a financial market stability package that contained the Interbank Market Support Act (IBSG) and the Financial Market Stability Act (FinStaG).

IBSG had two main components. First, it called for the establishment of a new, privately owned clearing bank to facilitate interbank lending. The bank, Oesterreichische Clearingbank AG (OeCAG) conducted regular auctions to match available deposits with demands for credit. OeCAG could issue securities guaranteed by the federal government, and the government also pledged to cover a certain amount of the clearing bank's losses. Second, it allowed the government to guarantee securities with maturities of five years or less issued by other credit institutions. For more information on the IBSG guarantee scheme, see the IBSG case. FinStaG allowed the Federal Minister of Finance to recapitalize and strengthen the capital base of specific credit institutions and insurance companies. For more information, see the FinStaG case.