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State aid: Commission approves Danish state support scheme for banks

The European Commission has approved under EC Treaty state aid rules a Danish scheme aimed at restoring confidence in the Danish financial markets in order to remedy a serious disturbance in the economy of Denmark. The scheme would provide liquidity facilities for banks operating in Denmark and protect depositors and ordinary creditors in case of insolvency. The Danish authorities notified the measure on 8 October and it was approved within two days by the Commission under a new simplified procedure for emergency rescue measures. The Commission found the scheme to be compatible with EU state aid rules because it is the most appropriate means to address the risk of a severe disturbance in the Danish economy, while keeping potential distortions of competition to a minimum through effective safeguard mechanisms. The Commission took into particular account that the guarantee scheme is limited to fundamentally sound financial institutions while insolvent banks need to be immediately unwound, that it is open to all banks established in Denmark but that it requires a significant financial contribution which ensures that an adequate premium is paid for the guarantee. Moreover, the scheme ensures that the participating banks can neither on an individual nor on an aggregate level significantly expand their activities, as measured against established benchmarks The scheme will be remain in force for two years.

Competition Commissioner Neelie Kroes said: "The Danish scheme, following the changes I requested, is an excellent example of the type of intervention that can strengthen financial markets, without making the situation worse in other countries. Excellent co-operation with Denmark, our new simplified adoption procedure for rescue measures and a lot of hard work mean that we have been able to contribute to and approve a good example of how to support banks in the current financial turmoil in record time."

The Danish authorities notified a support scheme on 8 October, designed to stabilise the Danish financial markets through two different measures:

- a guarantee on claims by depositors and ordinary creditors (of unsecured and unsubordinated debt),
- a legally established company to wind up banks that do not fulfil statutory solvency requirements and for which no viable private solution could be achieved.

The measures would be financed by private contributions through Det Private Beredskap (DPB), the Danish Contingency Association. DPB would pay an annual premium over two years of DKK 15 billion (around € 2 billion. In addition it has to put up DKK 10 billion (around € 1.3 billion) to cover losses in the winding-up company in any event, and would cover additional losses of up to DKK 10 billion, once the first DKK 25 billion have been spent. Any losses exceeding these contributions would be taken over by the State.

The Commission concluded that the measures were in line with the EU state aid rules (Article 87(3)(b) of the EC Treaty), because they constituted an appropriate, necessary and proportionate means to remedy a serious disturbance in the Danish economy.

A special feature of the scheme is that it is limited to limited to fundamentally sound financial institutions that are affected by the current liquidity crises. It aims at overcoming the current international market failure where even such fundamentally sound financial institutions have problems to obtain liquidity. By ensuring lenders that they will be repaid confidence in the interbanking market shall be re-established.

Moreover, the scheme is open to all banks established in Denmark. The banks would pay an appropriate premium to remunerate the debt guarantee. The State support is kept to a minimum through a high private participation and the system might even be wholly self-financing, as the State would cover only losses that occur in excess of the significant financing of DPB which is equal to 2 % of the GDP of Denmark. Moreover, participating banks would not be allowed to expand their activities but would have to adopt a cautious strategy and strengthen their balance sheets, under the monitoring of a newly established the Financial Surveillance Authority. This is ensured not only regarding the individual banks but also at an aggregate level and will be measured against concrete, well-established benchmarks. These safeguards would ensure that potential distortions of competition are minimised and that the beneficiaries receive only the aid that is strictly necessary to overcome the difficulty.

A side effect of the scheme is that once a bank became insolvent, it would be mandatory to wind it up. It is in this case that the creditor guarantee would be drawn. To wind up the bank a private solution would have to be sought before committing additional state resources. Where this was not possible, the bank would have to be liquidated whereas the banks could be sold in parts in an open, unconditional and non-discriminatory manner. If the bank was of a significant size, this would need to be individually notified to the Commission

Finally, the Danish authorities have committed to notify the Commission in due time if they seek a prolongation of the scheme. Moreover, they will review the functioning of the scheme on a bi-annual basis and therefore provide the Commission with half-yearly reports

The non-confidential version of the decision will be made available under the case number NN 51/2008 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.