IP/08/2057

Brussels, 23rd December 2008

State aid: Commission approves modifications to UK financial support measures to the banking industry

The European Commission has approved, under EC Treaty state aid rules, modifications to the UK support measures to the banking industry, initially approved by the Commission on 13 October 2008 (see [IP/08/1496]). The amendments mainly concern the fee payable on guaranteed liabilities and the widening of the range of currencies in which the guaranteed instruments can be issued. The modifications will bring the UK scheme in line with those in other Member States and support the provision of credit to the UK economy. The Commission therefore concluded that the UK support measures, as amended, are compatible with the common market.

Competition Commissioner Neelie Kroes said: "The excellent cooperation with the UK authorities and streamlined procedures have once again led to a quick and effective Commission decision. On this basis we have approved the amendment of the UK scheme in a period of fast evolving financial markets in order to support banks to provide sufficient credit to the UK economy".

On 18 December 2008, the UK notified a set of modifications it intended to make to the UK support measures to the banking industry (see IP/08/1496). These amendments were aimed at adapting the package to the Commission's Communication on recapitalisation (see IP/08/1901) and to bring it in line with schemes in other Member States.

Concerning the UK Recapitalisation Scheme, the Commission accepted, in line with its Communication on recapitalisation that fundamentally sound banks do not need to provide a restructuring plan, but may instead provide a report that illustrates that they remain fundamentally sound and how they plan to repay the state capital.

Concerning the UK Guarantee Scheme the main amendments concern the following basic features:

- The UK will, as of 1 January 2009, also guarantee debt instruments issued in Japanese yen, Australian dollars, Canadian dollars and Swiss francs. Previously, the eligible debt was limited to instruments in sterling, US dollars or euros.
- The fee payable on guaranteed liabilities will be based on a per annum rate of 50 basis points plus 100% of the institution's median five-year Credit Default Swap (CDS) spread during the period 2 July 2007 to 1 July 2008. This fee will apply retrospectively to all guaranteed issues under the original scheme since its launch on 13 October 2008.
- As in the original Guarantee Scheme, the initial term of the instruments guaranteed under the amended scheme will remain no longer than three years. However, participating institutions will now be able to roll over the guarantee on some individual instruments for an additional two years, ending in April 2014. The proportion of the guaranteed liabilities that can be rolled over in this fashion shall not exceed one third of the overall guaranteed liabilities.

In addition, the requirement of a balance sheet growth limitation to certain thresholds in the Guarantee and Recapitalisation Scheme will no longer apply to those banks that can be considered as fundamentally sound.

The Commission is satisfied that as a result of its dialogue with the UK authorities, the UK support measures to the banking industry have been adjusted to changing market conditions. The adjusted package takes into account the latest guidance of the Commission.

The non-confidential version of the decision will be made available under the case number N650/2008 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.