The Guardian

Treasury's official announcement on the banks

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Financial support to the banking industry

After consultation with the Bank of England and the Financial Services Authority, the Government announces that it is bringing forward specific and comprehensive measures to ensure the stability of the financial system and to protect ordinary savers, depositors, businesses and borrowers.

In summary the proposals announced today are intended to:

- Provide sufficient liquidity in the short term;

- Make available new capital to UK banks and building societies to strengthen their resources permitting them to restructure their finances, while maintaining their support for the real economy; and

- Ensure that the banking system has the funds necessary to maintain lending in the medium term.

In these extraordinary market conditions, the Bank of England will take all actions necessary to ensure that the banking system has access to sufficient liquidity. In its provision of short term liquidity the Bank will extend and widen its facilities in whatever way is necessary to ensure the stability of the system. At least £200 billion will be made available to banks under the Special Liquidity Scheme. Until markets stabilise, the Bank will continue to conduct auctions to lend sterling for three months, and also US dollars for one week, against extended collateral. It will review the size and frequency of those operations as necessary. Bank debt that is guaranteed under the Government's guarantee scheme will be eligible in all of the Bank's extended-collateral operations. The Bank next week will bring forward its plans for a permanent regime underpinning banking system liquidity, including a Discount Window facility.

In addition the Government is establishing a facility, which will make available Tier 1 capital in appropriate form (expected to be preference shares or PIBS) to 'eligible institutions'. Eligible institutions are UK incorporated banks (including UK subsidiaries of foreign institutions) which have a substantial business in the UK and building societies. However applications are invited for inclusion as an eligible institution from any other UK incorporated bank (including UK subsidiaries of foreign institutions). In reviewing these applications the Government will give due regard to an institution's role in the UK banking system and the overall economy.

Following discussions convened by HM Treasury, the following major UK banks and the largest building society have confirmed their participation in a Government-supported recapitalisation scheme. These institutions comprise:

Abbey

Barclays

HBOS

HSBC Bank plc

Lloyds TSB

Nationwide Building Society

Royal Bank of Scotland

Standard Chartered

These institutions have committed to the Government that they will increase their total Tier 1 capital by £25bn. This is an aggregate increase and individual increases will vary from institution to institution. In order to facilitate this process the Government is making available £25bn to be drawn on by these institutions if desired to assist in this process as preference share capital or PIBS and is also willing to assist in the raising of ordinary equity if requested to do so. The above institutions have committed to the Government that this will be concluded by the end of the year.

In addition to this, the Government stands ready to provide an incremental minimum of £25bn of further support for all eligible institutions, in the form of preference shares, PIBS or, at the request of an eligible institution, as assistance to an ordinary equity fund-raising.

The amount to be issued per institution will be finalised following detailed discussions. If the Government is to provide the capital, the issue will carry terms and conditions that appropriately reflect the financial commitment being made by the taxpayer. In reaching agreement on capital investment the Government will need to take into account dividend policies and executive compensation practices and will require a full commitment to support lending to small businesses and home buyers.

The Government will take decisive action to reopen the market for medium term funding for eligible institutions that raise appropriate amounts of Tier 1 capital.

Specifically the Government will make available to eligible institutions for an interim period as agreed and on appropriate commercial terms, a Government guarantee of new short and medium term debt issuance to assist in refinancing maturing, wholesale funding obligations as they fall due. Subject to further discussion with eligible institutions, the proposal envisages the issue of senior unsecured debt instruments of varying terms of up to 36 months, in any of sterling, US dollars or euros. The current expectation is that the guarantee would be issued out of a specifically designated Government-backed English incorporated company. The Government expects the take-up of the guarantee to be of the order of £250bn, and will keep this under review alongside ongoing monitoring of capital positions and lending volumes.

To qualify for this support the relevant institution must raise Tier 1 capital by the amount and in the form the Government considers appropriate whether by Government subscription or from other sources. It is being made available immediately to the eight institutions named above in recognition of their commitment to strengthen their aggregate capital position.

The Government has informed the European Commission of these proposals and is actively talking to other countries about extending these proposals and has committed to work together with them to strengthen the international system.

The Government is moving ahead immediately with the internationally agreed proposal for colleges of supervision and other measures to improve supervision of the system. After discussions with the major economies at the G7 meeting on Friday, the Government and other countries agreed on the need for a meeting at heads of Government level.

Topics

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