The French Bank Relief Act

French President Nicolas Sarkozy proposed a €360 billion rescue plan in response to the global financial crisis, and the resulting legislation, French law no. 2008-1061, "*Loi de finance rectificative pour le financement de l'économie*" (the French Bank Relief Act), came into effect on October 17, 2008. In order to respond to liquidity and solvency problems faced by banks, this law created special entities authorized to refinance and recapitalize banks in France with the benefit of a French state guarantee.

- The French Bank Relief Act created a Refinancing Company (*Société française de refinancement de l'économie* or *SFRE*) and a Recapitalization Company (*Société de prise de participation de l'Etat* or *SPPE*) and established a guarantee by the French state for debt securities issued by these two companies.
- The Refinancing Company can obtain state guarantees for up to €320 billion, while the Recapitalization Company can obtain state guarantees for up to €40 billion.
- In the event of a potential emergency, the Ministry of the Economy may grant a direct guarantee by the French state to underwrite debt issued by a credit institution (*établissement de crédit*).
- The Refinancing Company is a French joint stock company (*société par actions*) — 66 percent of its share capital is held by six major banks and 34 percent is held by the French state.
- The Refinancing Company may grant loans with a maturity not to exceed five years to credit institutions licensed in France, including the French subsidiaries of foreign groups, provided that such institutions satisfy regulatory capital requirements. These loans bear interest payable to the Refinancing Company and such interest includes a guarantee fee payable to the French state.
- To benefit from a loan, a credit institution must grant qualifying financial collateral to the Refinancing Company and must agree to certain undertakings, including certain minimum ethical rules regarding executive compensation and reporting standards, as well as an engagement to provide financing to individuals, small and midsized businesses and local authorities.
- The Recapitalization Company, which was initially created in order to invest in the share capital of Dexia, is wholly owned by the French state. It has the authority to raise funds in order to make equity or quasi-equity investments in credit institutions and other financial institutions (*établissements financiers*) for the purpose of allowing such institutions to meet their regulatory capital requirements.
- The Dexia group (which consists of local banking operations in Belgium, Luxembourg, Slovakia and Turkey, as well as being a global player in local public sector financing) was the object of a recapitalization carried out on October 3, 2008, by the French, Belgian and Luxembourg governments. As a continuation of this plan, the French Bank Relief Act authorizes the Ministry of the Economy to extend a state guarantee to cover fundraising by certain Dexia entities on the interbanking market or through the issuance of debt securities to institutional investors. The French state will only extend this guarantee if the governments of Belgium and Luxembourg also provide guarantees in a *pro rata* proportion to their participation in Dexia. The French state has already guaranteed €55 billion in fundraising by Dexia, which is included in the €320 billion limit on guarantees available to the Refinancing Company.

On October 20, 2008, the Recapitalization Company injected €10.5 billion into six French banks through the subscription of super subordinated securities that are eligible for the equity rank Tier 1. On November 12, 2008, the Refinancing Company issued bonds with a three-year term for an amount of €5 billion. The operation received an AAA rating by the three main rating agencies. The funds raised by this first issuance were used by the Refinancing Company to grant loans to several banks.

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