Erhvervs-, Vækst- og Eksportudvalget 2012-13
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Offentligt

19 January 2009 Strictly private and confidential

Project Horizon

UK Government package 19 January 2009

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UK Government package 19 January 2009

Overview

The UK Government announced on 19 January a package "designed to reinforce the stability of the financial system, to increase confidence and capacity to lend, and in turn to support the recovery of the economy"

Guarantee scheme for asset backed securities (CGS extension)

- The UK Government announced a new guarantee scheme for asset backed securities intended to improve banks' access to wholesale funding markets, help support lending, and promote "robust and sustainable markets over the longer-term"
- The UK Government will provide full or partial guarantees to be attached to eligible triple-A rated asset-backed securities, including mortgages and corporate and consumer debt - only transparent structures and high quality assets are eligible
- Banks accessing the scheme to follow international standards and best practice on underwriting, disclosure, reporting and valuation
- The scheme will commence in April 2009, subject to state aid approval
- Further details will be announced by the DMO in due course

Bank of England asset purchase facility

- The Bank of England will set up an asset purchase programme implemented through a specially created fund
- The Bank will be authorised by the UK Treasury to purchase high quality private sector assets, including paper issued under the CGS, corporate bonds, commercial paper, syndicated loans and a limited range of asset backed securities created in viable securitisation structures
- The Treasury will authorise initial purchases of up to £50 billion, financed by the issue of Treasury bills
- Given the scale of the programme, the Bank will be indemnified by the Treasury
- This programme will come into effect from 2-Feb-09
- The programme also provides a framework for the Monetary Policy Committee of the Bank of England to use asset purchases for monetary policy purposes should the MPC conclude that this would be a useful additional tool for meeting the inflation target
- Further details of the arrangements for the Asset Purchase Facility will be set out in an exchange of letters between the Chancellor and Governor before the end of January

Share price reactions

Bank	Share price (p) 16-Jan-09 (closing price)	19-Jan-09 (closing price)	% change
HSBC	535.75	501.00	(6.5%)
RBS[1]	34.70	11.60	(66.6%)
Standard Chartered	768.00	706.00	(8.1%)
Barclays	98.00	88.00	(10.2%)
Lloyds TSB	98.40	65.00	(33.9%)

Notes

1 RBS announced 19 January that it expects a 2008 full year loss of between £7 - £8bn, and would issue £5bn of ordinary shares to the UK Government to replace the £5bn of preference shares held by the UK Government in addition to £5bn ordinary shares being offered to existing shareholders at 31.75p

UK Government package 19 January 2009

Overview (cont'd)

Capital and asset protection scheme

- Essentially an insurance scheme to protect participating institutions against further losses such that they can free up capital to support lending
- Offers protection against future credit losses on defined assets to the extent that credit losses exceed a "first loss" borne by the institution
- Institutions required to retain further residual exposure above "first loss", expected to be 10% to give an incentive to keep losses to a minimum
- Fee (level to be confirmed) to be satisfied by issue of capital instruments of the participating institution; instruments not expected to include ordinary shares
- Protection initially offered to UK incorporated authorised deposit-takers with >£25bn of eligible assets before considering extending the scheme
- Eligible institutions must satisfy Treasury criteria that they are adequately funded; have a sustainable business model; funding profile broad-based and sustainable and senior management team credible
- Eligible assets to be determined on a case-by-case basis but may include: commercial and residential property loans most effected by the current economic crisis; structured credit assets; certain corporate/leveraged loans and closely related hedges as at 31-Dec-08
- Assets will continue to be managed by the institution but must be "ring fenced"; duration of assets in scheme not expected to be < 5 years

Credit guarantee scheme

- Extended drawdown window of the existing guarantee scheme for bank debt issuance from 9-April-09 to 31-Dec-09; all other aspects of the scheme to remain the same

Liquidity facilities

- Upon closure of Special Liquidity Scheme to banks on 30-Jan-09 (remaining operational for 3yrs thereafter) the Bank will extend its Discount Window Facility with its maturity increasing from 30 days to 1 year for an incremental fee of 25bps to allow banks to continue to have access to long-term liquidity on demand

FSA clarification on capital regulation

- To address any potential uncertainty and to mitigate unintended pro-cyclical effects the FSA published further clarification about its expectations of bank capital ratios:
  - "We are operating on the basis that we are expecting each of the participating banks to have a minimum core tier 1 of 4%. At the time of the recapitalization we also used a tier 1 ratio of 8% to help us determine the appropriate level of buffer. We estimate 6-7% to be a comparable post stress tier 1 number to the core tier 1 number of 4%"