

Credit Institutions (Financial Support) Scheme 2008

Details of the Irish Government's financial support to credit institutions have been clarified with the enactment of the Credit Institutions (Financial Support) Scheme 2008.

The Scheme confirms that the State guarantee will cover: all retail and corporate deposits; interbank deposits; senior unsecured debt; asset covered securities; and dated subordinated debt.

The guarantee is to cover all liabilities existing as at 30 September 2008 or created up to 29 September 2010. To reduce the financial risk to the State in providing the guarantee, the Scheme stipulates that any payments which are made under the guarantee will be recouped over time from institutions covered by the guarantee.

A quarterly charge will be levied on covered institutions. In recognition of the unprecedented nature of the financial support, the Scheme acknowledges that the precise calculation of this fee will be difficult. However, details are provided of the basis on which this fee is to be calculated and the factors to be taken into account. The primary basis for the calculation of the charge will be the increased costs of funding for the Irish Exchequer as a result of the guarantee. However, the charge will not simply be set at a level to cover the costs of the Scheme, as one of the factors is ensuring the provision of an adequate return for taxpayers. The charge will also be used to further the aims of the Scheme by taking into account the risk represented by covered institutions and by rewarding efforts to reduce this risk.

In addition to paying this quarterly charge, covered institutions will be expected to make changes to their business models and cede some of their commercial freedom to the Minister.

Covered institutions will face restrictions on their ability to issue new subordinated debt and caps have also been placed on their balance sheet growth. Covered institutions are also required to take all possible steps to appoint at least one non-executive director from a panel which is to be approved by the Minister for Finance.

Ministerial approval will be required for the establishment of subsidiaries and new business areas or the acquisition of shares in other financial institutions or credit institutions.

The Scheme also calls for the establishment of an independent committee to oversee all senior executive remuneration, including bonuses, which must be linked to a reduction in risk taking and encouraging the long term prospects of the business.

The Scheme imposes restrictions on the payment of dividends but does not seek to punish shareholders. The Scheme recognises the importance of attracting new investors and debtors and provides that the charge is to be set at a level which is consistent with the need to support investor and debtor confidence in the Irish banking system.

While the scheme has stopped short of nationalising participating institutions, leaving the ownership structure unchanged, the state has assumed a role of quasi-shareholder. The state is entitled to participate in the profits of participating institutions and will have a significant voice in the management and future direction of the business.