

Brussels, 25<sup>th</sup> February 2009

## **State aid: Commission provides guidance for the treatment of impaired assets in the EU banking sector**

*The European Commission has provided guidance on the treatment of asset relief measures by Member States. Impaired assets correspond to categories of assets on which banks are likely to incur losses (e.g. US sub-prime mortgage backed securities). The Commission considers that a common European approach is presently needed to deal with the treatment of impaired assets, to make sure that foreseeable losses are disclosed and properly handled and banks can use their capital to resume their normal function of lending to the economy instead of fearing they would need this capital to cushion against possible losses. The Commission's Communication outlines various methods to deal with impaired assets, notably through asset purchase (including bad bank scenarios) or asset insurance schemes. It explains the budgetary and regulatory implications of asset relief measures and presents details concerning the application of the State aid rules to such measures. In particular, the guidance provides methodologies concerning the valuation of the impaired assets, the necessary remuneration of the State for the asset relief and the procedural steps that will be followed as well as the criteria that will be used to evaluate the State aid given to the banks as a result.*

Competition Commissioner Neelie Kroes said: "We have already taken important steps towards financial stability through bank rescues and recapitalisation. Now, we need transparency, disclosure and correct valuation of impaired assets in order to clean the balance sheets of banks and address the root cause of lack of confidence. But we also require that the banks contribute adequately to the costs. They may have to be restructured in exchange for the State aid they receive. The Commission can play a key role through coordinated and rapid action, and thus contribute to restart lending."

"We have taken, since last October, a series of measures that have stabilised financial markets, but the job will only be complete if companies and households continue to have access to credit, the lifeblood of economic activity. Dealing with impaired assets is crucial to achieve this, to restore confidence and to guarantee a gradual recovery of the economy," said Economic and Monetary Affairs Commissioner Joaquín Almunia.

Internal market and services Commissioner Charlie McCreevy said: "These guidelines will help Member States deal with impaired assets on bank's balance sheets. If we don't face up to this issue then we risk prolonging this crisis with zombie banks that are incapable of performing a useful role in our economies."

The Communication takes account of the recommendations of the European Central Bank and takes into account the extensive discussions with Member States over the last two months on the appropriate way to deal with impaired assets. It addresses the rationale for asset relief as a measure to safeguard financial stability and underpin bank lending; the longer-term considerations of banking-sector viability and budgetary sustainability to be taken into account when considering asset relief measures; and the need for a common and co-ordinated EU approach to asset relief, notably to ensure a level playing field.

The guidance for the application of the State aid rules is based on a number of principles:

- full transparency and disclosure of impairments, which has to be done prior to government intervention;
- coordinated approach to the identification of assets eligible for asset relief measures through development of eligible categories of assets ("baskets");
- coordinated approach to valuation of assets ex-ante, based on common principles such as valuation based on real economic value (rather than market value), implemented by independent experts and certified by bank supervisors,
- validation by the Commission of the valuation of the assets, in the framework of the State aid procedures on the basis of uniform assessment criteria;
- adequate burden-sharing of the costs related to impaired asset between the shareholders, the creditors and the State,
- adequate remuneration for the State, at least equivalent to the remuneration of State capital
- coverage of the losses incurred from the valuation of the assets at real-economic-value by the bank benefiting from the scheme
- aligning incentives for banks to participate in asset relief with public policy objectives, through an enrolment window limited to six months during which the banks would be able to come forward with impaired assets;
- management of assets subject to relief so as to avoid conflicts of interests;
- appropriate restructuring including measures to remedy competition distortion, following a case by case assessment and taking into account the total aid received through recapitalisation, guarantees or asset relief, with a view to the long-term viability and normal functioning of the European banking industry.

The design of the asset relief scheme, be it asset purchase, insurance, swap, guarantee or hybrid models, is the responsibility of the Member State. Their treatment from the State aid point of view will however be subject to uniform assessment criteria, which should maintain a level playing field. The Commission approval for asset relief measures will be granted for a period of six months, and conditional on the commitment to present details of the valuation of the impaired assets, as well as a viability assessment and restructuring plan for each beneficiary institution within 3 months from its accession to the asset relief programme.

The Communication complements and refines the Banking Communication (see [IP/08/1495](#)), where the Commission set out the principles governing the application of the State aid rules to any support measure for banks in the context of the global financial crisis. In a similar vein that the recapitalisation communication (see [IP/08/1901](#)) detailed the application of the general principles to recapitalisation of banks, the present communication sets out principles that must be followed by any asset relief measure.

The Communication is available on Europa:

[http://ec.europa.eu/competition/state\\_aid/legislation/specific\\_rules.html](http://ec.europa.eu/competition/state_aid/legislation/specific_rules.html)

Under "Financial sector: application of State aid rules to measures taken in the context of the current global financial crisis".