

# Financial Services Client Alert

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## UK Government announces substantial financial support package for UK banking industry

Following consultation with the Bank of England (the “Bank”) and the Financial Services Authority (the “FSA”), the UK Government has this morning announced that it is “bringing forward specific and comprehensive measures” to ensure the stability of the UK financial system and to protect ordinary savers, depositors, businesses and borrowers.

### The proposals at high level

The Press Release issued by HM Treasury this morning (please see hyperlink below) confirms that the proposals 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.

### Short term liquidity

At least £200 billion will be made available to banks under the Special Liquidity Scheme. Until the markets stabilise, the Bank will continue to conduct auctions to lend sterling for three months, and US dollars for one week, against extended collateral. 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 is also expected to bring forward to next week its plans for a permanent system, including the Discount Window facility.

### Government-supported £25bn- £50bn recapitalisation scheme

The Government is also implementing a system that will make Tier 1 capital in appropriate form available to "eligible institutions". Qualifying institutions are UK incorporated banks (including UK subsidiaries of foreign institutions) which have a substantial business in the UK, and building societies. However, applications for inclusion are also invited from any other UK incorporated bank (including UK subsidiaries of foreign institutions). The following major UK institutions have, as of this morning, confirmed their participation in the recapitalisation scheme:

- Abbey
- Barclays Bank
- HBOS
- HSBC
- Lloyds TSB
- Nationwide Building Society
- Royal Bank of Scotland
- Standard Chartered Bank

These institutions have committed to the Government to increase their Tier 1 capital by £25 billion in aggregate (i.e. individual amounts will vary and will be finalised following detailed discussions). The Government is therefore making available £25 billion for draw down in return for issue of preference shares or PIBS but is also willing to assist with raising ordinary equity capital. The Government is ready to provide a further £25 billion if necessary.

### Government guarantee of short and medium term debt up to £250bn

The Government is also aiming to reopen the market for short and medium term funding for the eligible institutions that raise appropriate amounts of Tier 1 capital by providing a Government guarantee of short and medium term debt issuance to assist in refinancing maturing wholesale funding obligations as they fall due. The scheme envisages the issue of senior unsecured debt instruments of varying terms of up to 36 months in sterling, US dollars or euros guaranteed by a Government-backed English incorporated company. This facility is being made available immediately to the eight institutions named above in recognition of their commitment to strengthen their aggregate capital position. The take-up of this guarantee is expected to be around £250 billion. However, the Government will keep this under review.

HM Treasury Press Release:

[http://www.hm-treasury.gov.uk/press\\_100\\_08.htm](http://www.hm-treasury.gov.uk/press_100_08.htm)

Bank of England Release:

<http://www.bankofengland.co.uk/publications/news/2008/066.htm>

### Comments

The issue of preference shares to the Government does of course mean the partial nationalisation of each of the banks and building societies that participate in the scheme. However, with the worsening credit crisis, this partial nationalisation is seen by the Government as a necessary step to preventing a serious disruption to the banking system. Reports on the Government bailout plan have been broadly welcomed in the press this morning.

If you have any questions or require specific advice on any matter discussed in this publication, please contact the partners named below or your regular contact at Mayer Brown.

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