1-19-2009

Statement on the Government's Asset protection scheme

United Kingdom: HM Treasury: Chancellor of the Exchequer

07/09

19 January 2009

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As part of a a comprehensive 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 the Government is today announcing its intention to offer protection on those assets most affected by the current economic conditions. The Asset Protection Scheme is designed to protect financial institutions against exposure to exceptional future credit losses on certain portfolios of assets. In conjunction with the steps already taken by the UK authorities and in co-ordination with their international partners, the Scheme is designed to restore confidence to financial markets, supporting financial stability and the availability of credit to creditworthy borrowers in the economy. The Government will be taking forward discussions in the coming weeks with its international partners about the establishment and co-ordination of such schemes by a number of countries. This document summarises the headline terms of how a UK scheme would be implemented.

1. Introduction

1.1 Under the Scheme, in return for a fee, the Treasury will provide to each participating institution protection against future credit losses on one or more portfolios of defined assets to the extent that credit losses exceed a "first loss" amount to be borne by the institution. It is intended that the Scheme will target those asset classes most affected by current economic conditions.

1.2 The Treasury protection will cover the major part but not all of the credit losses which exceed this "first loss" amount. Each participating institution will be required to retain a further residual exposure, which is expected to be in the region of 10 per cent. of the credit losses which exceed the "first loss" amount. This residual exposure will provide an appropriate incentive for participating institutions to endeavour to keep losses to a minimum.

1.3 The Treasury currently expects that the fee will usually be satisfied by the issue of capital instruments of the participating institution. These instruments are not expected to include ordinary shares, but will include a range of alternative capital instruments. The Treasury will be open to consider other forms of fee, including cash.

2. Eligible Institutions

2.1 The Treasury will, in the first instance, offer protection to UK incorporated authorised deposit-takers (including UK subsidiaries of foreign institutions) with more than £25 billion of eligible assets. Affiliated entities will also be considered by the Treasury for protection under the Scheme in the light of its assessment of the impact on financial market stability and the overall economy and the most effective possible use of public resources.

2.2 The Treasury will subsequently consider extending the Scheme more widely to other UK incorporated authorised deposit-takers (including UK subsidiaries of foreign institutions). Further participation in the Scheme will be at the discretion of the Treasury taking account of the advice of the Bank of England and the FSA on the basis of its best judgment of how important the deposit-taker concerned is to financial market stability and the overall economy and the most effective possible use of public resources.