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Financial support to the banking industry

United Kingdom: HM Treasury

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Financial support to the banking industry

After consultation with the Bank of England and the Financial Services Authority, the Government announces that it is bringing forward specific and comprehensive measures to ensure the stability of the financial system and to protect ordinary savers, depositors, businesses and borrowers.

In summary the proposals announced today 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.

In these extraordinary market conditions, the Bank of England will take all actions necessary to ensure that the banking system has access to sufficient liquidity. In its provision of short term liquidity the Bank will extend and widen its facilities in whatever way is necessary to ensure the stability of the system. At least £200 billion will be made available to banks under the Special Liquidity Scheme. Until markets stabilise, the Bank will continue to conduct auctions to lend sterling for three months, and also US dollars for one week, against extended collateral. It will review the size and frequency of those operations as necessary. 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 next week will bring forward its plans for a permanent regime underpinning banking system liquidity, including a Discount Window facility.

In addition the Government is establishing a facility, which will make available Tier 1 capital in appropriate form (expected to be preference shares or PIBS) to "eligible institutions". Eligible institutions are UK incorporated banks (including UK subsidiaries of foreign institutions) which have a substantial business in the UK and building societies. However applications are invited for inclusion as an eligible institution from any other UK incorporated bank (including UK subsidiaries of foreign institutions). In reviewing these applications the Government will give due regard to an institution's role in the UK banking system and the overall economy.

Following discussions convened by HM Treasury, the following major UK banks and the largest building society have confirmed their participation in a Government-supported recapitalisation scheme. These institutions comprise:

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