Denmark: General Guarantee Scheme, 2008

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Abstract

As foreign credit in Denmark dried up during the summer of 2008, Danish banks became increasingly reliant on short-term borrowing. The government took over the failing Roskilde Bank, the country's eighth-largest bank, in late August. On October 5, 2008, the government announced a voluntary General Guarantee Scheme to fully insure deposits and other senior liabilities of participating banks. Banks could participate in the scheme by becoming members of the financial sector's banking consortium, Det Private Beredskab, or in English, the Private Contingency Association (PCA), before October 13, 2008. The General Guarantee Scheme fully insured all depositors and senior unsecured creditors of PCA banks for a binding two-year period, between October 5, 2008, and September 30, 2010. One hundred thirty-three banks participated as members of the PCA and accounted for 99% of deposits in Denmark. The PCA was responsible for funding up to 35 billion Danish kroner (DKK; USD 6.25 billion) of the guarantee fund through fees that member banks paid, with the government committing to cover any additional costs. The legislation also created a new state-run institution, the Financial Stability Company, in charge of winding up insolvent participants and administering the guarantee funds received from the PCA. By its close, the General Guarantee Scheme had paid out DKK 12 billion in guaranteed claims of six participating banks.

Keywords: blanket guarantee, Denmark, General Guarantee Scheme, Global Financial Crisis, Private Contingency Association

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Overview

During the summer of 2008, the collapse of Denmark's eighth-largest bank, Roskilde Bank, generated concerns about the health of Danish banks (Sabath 2020). Although Danmarks Nationalbank, the country's central bank, judged Roskilde Bank's vulnerabilities to be "self-inflicted and [having] little to do with the international financial crisis," foreign investors became less willing to lend to Danish banks (DNB 2009b). Shortly after the government takeover of Roskilde Bank on August 24, 2008, the global credit crunch following the failure in September of Lehman Brothers, a US investment bank, further starved Danish banks of foreign funding. The severe liquidity strains in Danish credit markets forced domestic banks to refinance their balance sheets at much shorter maturities, leading to heightened market exposure (DNB 2009b).

On October 5, 2008, the Danish government announced it had signed a political agreement ("the Agreement") on Financial Stability with the Danish People's Party, the Social Democrats, the Social-Liberal Party, and the private sector as an effort to restore functioning to the interbank lending market (DNB 2009b). Later, on October 10, 2008, the legislature confirmed the commitments outlined in the agreement with the passing of the Law on Financial Stability (also known as the Financial Stability Act). The act established the General Guarantee Scheme for deposits and other senior liabilities of member banks of Det Private Beredskab—in English, the Private Contingency Association (PCA) (Danish Government 2008).

Key Terms

Purpose: To "safeguard financial stability by contributing to facilitate the resumption of interbank lending" (Danish Government 2008, 1)

Launch Date(s)	Announcement: Oct. 5, 2008 Authorization: Oct. 10, 2008 Operation: Oct. 11, 2008
End Date(s)	Sept. 30, 2010
Eligible Institutions	All solvent banks that were members of the PCA before Oct. 13, 2008
Eligible Liabilities	Deposits; senior and unsecured bank liabilities
Fees	DKK 25 billion ex ante paid by PCA members to the FSC: DKK 10 billion up-front and DKK 15 billion in monthly commissions over two years Up to DKK 10 billion auxiliary commitment paid by the PCA to the FSC if costs exceeded DKK 25 billion Individual fees varied based on each participant's capital and account values and were risk weighted
Coverage	99% of deposits in Denmark (approx. DKK 1.6 trillion)
Outcomes	Six participants failed, costing the fund DKK 12 billion
Notable Features	Joint public-private partnership pursuant to which covered banks ultimately bore the total cost of the guarantee

The General Guarantee Scheme supplemented an existing, privately funded deposit insurance system administered by Danmarks Nationalbank, which covered deposits of all

PCA members up to EUR 50,000 (GII 2009; PCA 2011).[3] The existing scheme was the Guarantee Fund for Depositors and Investors (Guarantee Fund or GII) (Danish Government 2008). The PCA, created in 2007, was a voluntary organization of banks in Denmark that facilitated deposit insurance and the winding up of distressed banks (Sabath 2020; Woll 2014, 148). The PCA had just used up all of its 750 million Danish kroner (DKK) funds in a failed attempt to rescue Roskilde Bank with the help of the central bank (Sabath 2020).

The General Guarantee Scheme provided voluntary, unlimited coverage for eligible accounts of PCA members for two years, between October 5, 2008, and September 30, 2010 (Danish Government 2008; DNB 2009b; FSB 2010).

The collective membership of the PCA was responsible for covering the first DKK 35 billion (USD 6.25 billion)[4] of any guarantee outlays. Of this total, the PCA was required to fund DKK 25 billion in full with an additional DKK 10 billion commitment should the DKK 25 billion run out (DNB 2009b). Although the PCA provided the funds through contributions from its members, the agreement created a new state-run company, the Finansiel Stabilitet, or Financial Stability Company (FSC) in English, to administer the guarantee (DNB 2009a; OECD 2009). Provided that no private market alternative was available, the FSC wound up insolvent PCA members by injecting capital into a new subsidiary that assumed control of their assets and liabilities (DNB 2009b). The net capital injections were in an amount equal to guaranteed claims (Danish Parliament 2008, art. 8-2).

Once included in the scheme, banks were bound by the terms of the General Guarantee Scheme for the two-year coverage period, until September 30, 2010 (Danish Government 2008; ECB 2008). The General Guarantee Scheme's terms included a moratorium on dividend payments and additional stock buybacks (DNB 2009b). By October 13, 2008, 133 banks were members of the PCA, representing 99% of deposits in Denmark (IMF 2008). The General Guarantee Scheme expired on September 30, 2010, as scheduled. In total, the two-year unlimited guarantee cost DKK 12 billion in expenses related to six failed banks, excluding Roskilde Bank. However, an agreement introduced on August 10, 2009, between the FSC and the PCA provided for DKK 10.5 billion in funds to be used to cover accounts of Roskilde Bank using the existing funds of the General Guarantee Scheme (FSC 2011a; FSC 2011b). Including Roskilde Bank, guarantee outlays used up DKK 22.5 billion of the DKK 25 billion available funds (FSC 2011a). Through the General Guarantee Scheme, the FSC profited DKK 2.5 billion, with the total amount accruing to the government following the program's termination (Danish Parliament 2008, art. 11; FSC 2011a).

Following the expiration of the General Guarantee Scheme, deposit accounts up to DKK 750,000 (approximately EUR 100,500) were fully insured by the original Guarantee Fund, the GII (FSB 2010; FSC 2011b; OECD 2009). This increase from the original EUR 50,000

[3] On October 15, 2008, the European Commission issued a directive establishing a minimum deposit coverage of EUR 50,000 (EC 2008d). Per Yahoo Finance, EUR 50,000 was about DKK 372,500, based on the October 2008 average (EUR 1 = DKK 7.45).

4 Per Exchange Rates, DKK 35 billion was about USD 6.25 billion, based on the October 2008 average (USD 1 = DKK 5.60).

guarantee came in response to the amendments to the European Union (EU) directive on deposit insurance schemes (GII 2009).

Summary Evaluation

The International Monetary Fund (IMF) praised the General Guarantee Scheme for ensuring that banks bore the brunt of the guarantee costs, mitigating moral hazard, and ensuring equitable competition between Danish and foreign banks. With the private sector (PCA members) responsible for up to DKK 35 billion of guarantee costs, the government minimized potential public costs of bank failures and ultimately profited DKK 2.5 billion from the scheme (FSC 2011a; IMF 2008).

The IMF also has noted that the General Guarantee Scheme facilitated fair competition for both (1) foreign branches of Danish banks and (2) foreign banks operating in Denmark (IMF 2008). Under EU Directive 94/19/EC, foreign bank branches of Danish banks could obtain coverage if the respective foreign country had a similar guarantee arrangement protecting local banks; foreign banks in Denmark could also receive full deposit coverage provided that they did not already have such insurance (EP/EC 1994; IMF 2008).

Finally, the General Guarantee Scheme, pursuant to the Financial Stability Act, gave the Danish Financial Supervisory Authority (DFSA) the necessary powers to expel banks for imprudent financial activity and ensure that participants refrained from paying out dividends and buying back shares through the scheme’s duration (IMF 2008).

Context: Denmark 2008–2009		
GDP (SAAR, nominal GDP in LCU converted to USD)		$353.4 billion in 2008
		$321.2 billion in 2009
GDP per capita (SAAR, nominal GDP in LCU converted to USD)		$64,322 in 2008
		$58,163 in 2009
Sovereign credit rating (five-year senior debt)	2008	Moody's: Aaau
		S&P: AAAu
		Fitch: AAA
	2009	Moody's: Aaau
		S&P: AAAu
		Fitch: AAA
Size of banking system		$774.1 billion in 2008
		$683.4 billion in 2009
Size of banking system as a % of GDP		219.1% in 2008
		212.7% in 2009
Size of banking system as a % of financial system		Data not available in 2008
		Data not available in 2009
Five-bank concentration of banking system		89% in 2008
		88.6% in 2009
Foreign involvement in banking system		18% in 2008
		20% in 2009
Existence of deposit insurance		Yes in 2008
		Yes in 2009
Sources: Bloomberg; World Bank Global Financial Development Database; World Bank Deposit Insurance Dataset.		

Key Design Decisions

1. **Purpose: The Danish government joined with the financial sector to extend a full guarantee of depositors and other creditors to restore functioning to the interbank lending market.**

By the beginning of October 2008, developments in the Global Financial Crisis (GFC) drove interest rates on Danish interbank loans to historic highs, and even sound banks faced difficulties accessing credit (Danish Government 2008). On October 5, 2008, the Danish government reached a political agreement with the Danish People's Party, the Social Democrats, the Social-Liberal Party, and the financial sector to make available a full guarantee of all depositor claims, in addition to other financial protections (DNB 2009a). The agreement—adopted as law on October 10—resolved to "safeguard financial stability by contributing to facilitate the resumption of interbank lending" (Danish Government 2008). The existing deposit insurance, which was also voluntary, covered up to EUR 50,000 per depositor.

2. **Part of a Package: The Danish government introduced the blanket guarantee on top of a preexisting program, while additionally creating a public company for bank resolution.**

The Danish government's General Guarantee Scheme built upon existing deposit insurance arrangements provided through the Det Private Beredskab—also known as the Private Contingency Association, or PCA—and the Danish Guarantee Fund for Depositors and Investors (GII) (OECD 2009; Woll 2014, 148). The Danish government had administered the Guarantee Fund as a public deposit insurance scheme since 1987, but the GII was privatized in 2007 (GII 2009).

The first use of the existing deposit insurance scheme came with Roskilde Bank's distress in July 2008. The PCA, however, could deploy only a total of DKK 750 million—its provisional funds on hand—in the form of a loan to Roskilde Bank. The attempted rescue did not prevent Roskilde Bank's eventual collapse, and the PCA used up all of its funds in the process (EC 2008b; Sabath 2020).

On October 5, 2008, in the wake of Roskilde Bank's failure, the government announced the Agreement on Financial Stability, sometimes referred to as Bank Rescue Package I, which introduced the General Guarantee Scheme as a full guarantee of deposits and senior unsecured bank liabilities at member banks of the PCA (Mayer Brown 2009; OECD 2009). The agreement also created a new state-run liquidation company, Finansiel Stabilitet—the Financial Stability Company (FSC). The FSC managed the takeover of insolvent banks by providing capital injections to subsidiaries to cover claims of insured creditors (DNB 2009a; OECD 2009).

3. Legal Authority: The General Guarantee Scheme was authorized under the new Financial Stability Act, passed by Parliament and approved by the European Commission (EC).

The Danish Minister of Economic Affairs and Trade submitted to Parliament the proposal for the Financial Stability Act on October 8, 2008; Parliament ratified the proposal on October 10 (Danish Parliament 2008; DNB 2009a). Since the law contained guarantees on additional creditors, along with depositors of banks, granting competitive advantages to participants, the EC had to review the scheme under European State Aid rules, as defined by Article 87 of the EC Treaty (Danish Parliament 2008) The EC quickly approved the scheme the same day as Parliament, on October 10 (EC 2008c).

In addition to laying out the eligibility criteria, funding, and other terms of the General Guarantee Scheme, the Financial Stability Act provided for the FSC to handle insolvent participants. The act granted the FSC most of the administrative authority in managing the guarantee. The Financial Stability Act, however, sought to provide insolvent banks sufficient time to find market buyers before being wound up by the FSC (Danish Parliament 2008).

The Financial Stability Act empowered the Danish Financial Supervisory Authority (DFSA) to monitor participants' compliance with risk standards agreed upon by the PCA and Minister of Economic and Business Affairs. The DFSA could expel a bank from the scheme or remove a bank's board members for violating such standards after providing a non-compliant bank the opportunity to reduce risk. The act allowed the DFSA, under special circumstances, to expel a bank from the scheme even if the bank complied with risk standards. The DFSA had to publish such extraordinary exclusions, and all guaranteed accounts continued to be covered up to the amount of balances existing at the time of expulsion (Danish Parliament 2008).

The Danish government's General Guarantee Scheme built upon the existing deposit insurance system, the GII, (OECD 2009; Woll 2014, 148). The GII was originally a public guarantee fund before the European Union ruled that the public guarantee arrangement violated EU rules on State Aid. Therefore, in 2007, the GII became privately incorporated and funded, pursuant to the Law on a Guarantee Fund for Depositors and Investors, also known as the Guarantee Fund Act (DMTI 2007). The GII was, however, still administered by Danmarks Nationalbank (GII 2010). As of 2008, the GII covered deposits of all 146 banks in Denmark—four of which were foreign bank branches—up to DKK 300,000 (EUR 40,200) per depositor per bank (GII 2009).

The 2007 Guarantee Fund Act also provided for individual banks to form voluntary insurance schemes (DMTI 2007). In June 2007, the Danish Bankers Association, a cooperative organization of Danish financial institutions, established the PCA as a voluntary scheme to help distressed member banks—such as through providing funds to guarantee liabilities (PCA 2011). Importantly, all PCA members were required to be covered by the Guarantee Fund (PCA 2011).

4. **Administration: The PCA collected funds from its members to be paid out to the newly established state-run company, the FSC. The FSC managed the process for guaranteeing accounts and winding up insolvent participants.**

The General Guarantee Scheme was a joint public-private scheme. The PCA committed to insure up to a maximum of DKK 35 billion, with any remaining costs covered by the government (Danish Parliament 2008). The PCA collected funds from its members, which were transferred to the state-run FSC (Danish Parliament 2008). While the PCA paid funds to the FSC, according to the predetermined totals set by the Financial Stability Act, the PCA determined the fees borne by individual participants (EC 2008a). According to its Articles of Association, the PCA collected funds from members using the same ratios as the GII, pursuant to its statutory legal mandate (PCA 2011).

The FSC largely administered the remaining guarantee process (Danish Parliament 2008). The FSC was responsible for ensuring that guaranteed claims of insolvent PCA members were appropriately covered, as well as for winding up such banks. The FSC was solely owned by the government through the Danish Ministry of Economic and Business Affairs (DMEBA) (FSC 2010b). The FSC's board of directors appointed an executive management board consisting of one to three managers in charge of daily FSC operations; ultimately, the directors appointed only a single manager (FSC 2010b; PCA 2011).

Beginning on April 1, 2010, the FSC also took over the administration of the GII, previously handled by Danmarks Nationalbank (GII 2010).

The DFSA monitored PCA members' risk exposures to ensure compliance with prudential standards (Sabath 2020).

5. **Governance: The PCA and FSC each had a board of directors, composed of four and seven members, respectively.**

The Danish Bankers Association's board of directors, which represented Danish banks, made up the entire board of representatives of the PCA (PCA 2011). The board of representatives elected four of its members as the board of directors; this group included a chairman, deputy chairman, and two other members (PCA 2011).

The FSC was wholly state owned and governed by its seven-member board of directors, elected by FSC shareholders and recommended by the Minister of Economic and Business Affairs (FSC 2010b). The Danish Ministry of Economic and Business Affairs, representing the Danish government, was the only shareholder of the FSC. Directors were elected for three-year terms with the possibility of extensions (Danish Parliament 2008). The board of directors held annual meetings, open to the press, with representatives of the DMEBA and auditors (FSC 2010b). The board of directors held additional ad hoc board meetings in private (PCA 2011).

The FSC employed independent auditors, appointed by the FSC shareholders (Ministry of Economic and Business Affairs) and nominated by the board of directors (FSC 2010b).

The EC required the Danish government to produce biannual reports disclosing various developments in the program and participant banks. Additionally, if Danish authorities opted to renew the General Guarantee Scheme following its termination, the renewal required approval from the EC (EC 2008a).

6. **Communication: The Danish government press release announcing the General Guarantee Scheme on October 5, 2008, described a political agreement with parliamentary opposition parties and the financial sector, with the stated objective of unfreezing interbank lending and providing full protection to ordinary creditors in Denmark.**

The Danish government first announced the guarantee on October 5, 2008, through a press release by the Danish Ministry of Economic and Business Affairs and the Ministry of Finance (Danish Government 2008). To communicate political consensus around the guarantee program, the Danish prime minister joined with the opposition party to announce the agreement. The initial announcement, however, had almost no effect on easing the historically high rates in the domestic interbank market (Dougherty 2008).

On October 8, the Minister of Economic and Business Affairs submitted the guarantee—as part of the proposed law on financial stability—to Parliament, which approved the legislation two days later (DMEBA 2008; DNB 2009a). Although Danish credit markets still remained illiquid, the passage of the General Guarantee Scheme into law had a more positive impact on domestic liquidity pressures; one of the country's largest banks, Danske Bank, revealed that it was able to secure loans of USD 1 billion from US investors immediately after Parliament approved the guarantee. Nevertheless, prices for Danish credit still stayed close to record highs (Dougherty 2008).

7. **Source(s) and Size of Funding: Member banks of the PCA were responsible for providing up to DKK 35 billion to fund the General Guarantee Scheme, with the government liable for any costs exceeding this amount.**

The PCA insured the first DKK 35 billion of the General Guarantee Scheme, roughly equivalent to 2% of Denmark's GDP (DNB 2009a). The government was liable to cover any additional guarantee costs after the DKK 35 billion private sector commitment but estimated that the program could not realistically cost more than DKK 170 billion (Petrovic and Tutsch 2009).

Of the PCA's funding commitment, DKK 25 billion had to be transferred to the FSC, with the remaining DKK 10 billion collected only if the program's costs exhausted the initial funds of DKK 25 billion (Danish Parliament 2008). The DKK 25 billion of funds was never fully exhausted, and the PCA did not have to pay the last commitment of DKK 10 billion (FSC 2011a).

The requisite DKK 25 billion PCA funds included an up-front payment of DKK 10 billion to cover losses of the FSC, as well as a monthly guarantee commission, amounting to DKK 7.5 billion per year for two years (DKK 15 billion total) (DNB 2009a; EC 2008c). The PCA collected this guarantee commission from individual PCA members also on a monthly basis (Danish Government 2008).

Pursuant to the Financial Stability Act, all profits the FSC generated during the scheme's two-year duration were returned to the government (Danish Parliament 2008). By the end of the scheme in 2010, the government made DKK 2.5 billion in profit (FSC 2011a).

8. Eligible Institutions: All 133 members of the PCA were covered by the General Guarantee Scheme; before October 13, 2008, solvent banks could apply to join the PCA and existing members could leave to opt out of the binding guarantee scheme.

The General Guarantee Scheme applied to all banks that were members of the PCA (Danish Government 2008). Banks outside the PCA had until October 13, 2008, to apply for membership to the organization to be included in the guarantee (ECB 2008). Banks could therefore voluntarily enter and exit the PCA until October 13, after which participants were bound to the terms of the guarantee until the expiration on September 30, 2010 (Danish Government 2008; ECB 2008). To apply for membership with the PCA and participate in the guarantee, a bank was required to send a written notification to the PCA located at the Danish Bankers Association's House in Copenhagen, Denmark. Applying banks also needed to disclose the size of their necessary capital base as of the end of third quarter 2008 (PCA 2008).

One hundred thirty-three banks, or 90% of banks in Denmark, opted to participate in the PCA by the cut-off date, rendering 99% of deposits (equivalent to DKK 1.6 trillion) fully guaranteed (EC 2008a; IMF 2008; Sjögren and Iversen 2019; Woll 2014, 142).

Foreign branches of Danish banks in countries with similar deposit insurance schemes—but presumably not covered—were eligible for the General Guarantee Scheme (Danish Government 2008). Foreign banks with branches in Denmark could join the guarantee scheme provided that they were not already covered by an equivalent guarantee in their domicile; these branches, however, were allowed to have only their deposits covered and not other unsecured, unsubordinated accounts (EC 2008a). Foreign banks' Danish branches had to both apply for membership at the PCA and be approved by the Danish Financial Supervisory Authority (Danish Parliament 2008).

9. Eligible Liabilities: In addition to deposits, the General Guarantee Scheme fully insured other unsecured, unsubordinated debts, such as interbank liabilities.

The General Guarantee Scheme covered deposits, interbank liabilities, and senior unsecured debt. The guarantee excluded subordinated debt, hybrid capital, and covered bonds and other secured claims (Mayer Brown 2009). Deposits at the 133 PCA banks covered by the guarantee amounted to approximately DKK 1.6 trillion, or 99% of all deposits in Denmark (DFSA 2010; FSC 2011a; IMF 2008).

10. Fees: The PCA collected fees for the General Guarantee Scheme in proportion to each member's capital base and amount of covered accounts.

The PCA collected the guarantee fee monthly from its members. The fees charged per bank depended on the individual claims covered relative to a bank's required capital base and were adjusted for risk (PCA 2008). Banks could petition the PCA to pay in shares or "written guarantees issued by the banks" (Danish Government 2008).

11. Process for Exercising Guarantee: The FSC exercised the General Guarantee Scheme once a participant fell below the statutory solvency requirement and could not find a private buyer.

When any bank in Denmark fell below the statutory 8% solvency requirement, it was required to come up with necessary capital under a time frame set by the DFSA, after which the DFSA withdrew its license if the requirements were not met. The DFSA could also take away banking licenses for other reasons: violating laws on securities trading and mortgage financing, operational inactivity, falling below the EUR 5 million minimum capital requirement. For the General Guarantee Scheme, once the set time frame expired, participants had three days to form an agreement with the FSC to transfer assets and liabilities (excluding capital and subordinated capital) to an appropriate buyer (DMTI 2008; Danish Parliament 2008).

While managing the distressed bank, the FSC provided capital injections through a subsidiary to ensure the full coverage of guaranteed claims; the FSC ensured that the agreed-upon buyer received injections only in the amount equal to the guaranteed claims (Danish Parliament 2008; DNB 2009b). Outside the claims guaranteed by the General Guarantee Scheme, the FSC paid out claims covered by the GII, which then reimbursed the FSC. The GII guaranteed deposits and other similar accounts of banks outside the General Guarantee Scheme for up to EUR 50,000 (FSC 2010a).

12. Other Restrictions: Participants in the General Guarantee Scheme were prohibited from paying dividends and conducting stock buybacks, as well as engaging in unnecessary risk.

The General Guarantee Scheme prohibited participating banks from paying out dividends and exercising additional stock buybacks and options; participants also faced restrictions preventing any substantial expansions in their banking activities. Regulatory authorities, such as the DFSA, subjected participants to continued monitoring (Mayer Brown 2009). The DFSA was authorized to expel banks from the scheme or fire individuals on a participant's board of directors or management should a bank engage in imprudent risk (IMF 2008).

The PCA also sought to ensure that its members, participants in the guarantee, refrained from widely marketing the full coverage that the guarantee provided to participants' creditors. Participants could broadcast their participation in the General Guarantee Scheme on their individual websites (Danish Parliament 2008).

13. Duration: The General Guarantee Scheme lasted two years, from October 5, 2008, to September 30, 2010, expiring as scheduled.

When announced on October 5, 2008, the General Guarantee Scheme had a set expiration date of September 30, 2010, "with the possibility of prolongation, if considerations of financial stability necessitate a prolongation" (Danish Government 2008). Prolongation, however, would require further EC approval (EC 2008a). The General Guarantee Scheme, passed into law on October 10, 2008, provided an unlimited guarantee for participants between October 5, 2008 and September 30, 2010 (DNB 2009a; FSB 2010). With the expiration of the General Guarantee Scheme, the GII insured all deposits up to DKK 750,000 effective October 1, 2010 (FSC 2011b; OECD 2009). This increase came in response to the amendments to the EU directive on deposit insurance schemes (GII 2009).

On October 1, 2010, a new set of rules for winding up distress banks went into effect, referred to as the Exit Package from the original General Guarantee Scheme. From October 1 onward, distressed banks were no longer required to be wound up by the FSC but could still opt to do so. The GII thereafter paid guarantees for losses (FSC 2011b).

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