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IBSG Guarantee Program

Claire Simon

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Claire E. Simon[1]

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Abstract

Following the adoption of a joint framework by Euro area countries in response to the intensifying financial crisis in October 2008, Austria enacted a package of measures including the Interbank Market Support Act (Interbankmarktstärkungsgesetz, "IBSG"). In addition to calling for the establishment of a new clearing bank to facilitate interbank lending, IBSG permitted the Austrian government to guarantee debt securities issued by other credit institutions. Securities issued by credit institutions operating under a license pursuant to the Austrian Banking Act with a maturity of five years or less were eligible for guarantee. According to IBSG, the amount outstanding for all measures taken under the act could not exceed €75 billion. €4 billion of this was specifically allocated for guarantees of the clearing bank, Oesterreichische Clearingbank AG (OeCAG). This was subsequently to €45 billion. The guarantee scheme established by IBSG was used by six credit institutions in addition to OeCA, for €24.05 billion, CHF 325 million, and JPY 20 billion. After being extended by one year the issuance window for guarantees closed on December 31, 2010. None of the credit institutions called on the guarantees. The amount of guaranteed debt outstanding declined steadily, and all had matured by June 2014.

Keywords: credit guarantee, interbank lending

[1] Research Associate, Yale Program on Financial Stability. claire.simon@yale.edu

IBSG Guarantee Program

At a Glance

In line with a joint action plan for Euro area countries, Austria passed the Interbank Market Support Act (Interbankmarktstärkungsgesetz, "IBSG") to target disruption in the interbank market caused by the intensifying financial crisis. Under IBSG, the government called for the establishment of a clearing bank to facilitate interbank lending which was authorized to receive federal guarantees. In addition, IBSG permitted the Federal Minister of Finance to guarantee certain securities issued by Austrian credit institutions. After its passage, IBSG was reviewed by the European Commission (EC). The EC determined that the guarantee schemes constituted state aid but were permitted under Article 87(3)(b) of the EC Treaty.

Summary of Key Terms	
Purpose: To strengthen the interbank lending market by establishing a set of government guarantees to restore market functionality.	
Announcement Date	October 27, 2008
Operational Date	October 27, 2008
Date of First Guaranteed Loan Issuance	January 23, 2009
Issuance Window Expiration Date	Originally December 31, 2009; later extended to December 31, 2010
Program Size	€75 billion, €4 billion allocated to clearing bank; subsequently reduced to €45 billion.
Usage	Six institutions in total, €24.05 billion, CHF 325 million, JPY 20 billion.
Outcomes	No defaults; no guarantees called on.
Notable Features	Part of a package including creation of a clearing bank that could itself receive guarantees

Through the IBSG guarantee scheme, the government could guarantee securities with a maturity of five years or less issued by credit institutions operating under a license pursuant to the Austrian Banking Act. IBSG capped the amount of guarantees outstanding at €75 billion, but €4 billion of that was reserved for guarantees for the clearing bank, making the budget for the guarantee program effectively €71 billion. This was subsequently to €45 billion. Participating institutions had to have sustainable business policies and adequate capital ratios and were required to lend to corporate entities and individuals. Additionally, the government would review participants' internal compensation schemes. The program's budget was later reduced twice. According to the Ministry of Finance, six credit institutions participated in the program for a total of €24.05 billion, CHF 325 million, JPY 20 billion. The Austrian government charged a 50 basis point fee for participation. After being extended by one year, the program's issuance window closed on December 31, 2010. No credit institutions participating in the program defaulted and thus utilized the guarantees. The final security guaranteed under IBSG matured in June 2014, at which point there were no guarantees outstanding.

Summary Evaluation

The limited scholarship on IBSG, which largely focuses on the clearing bank rather than the guarantee scheme, asserts that the measures were successful in reinvigorating, but not completely restoring, the Austrian interbank market.

Contents

I. Overview

Background

Problems in the European interbank market were exacerbated by the collapse of Lehman Brothers in September 2008 (Posch et al 66). A number of unique conditions in Austria caused further disruptions to interbank lending. In response, the Austrian government passed a package of measures related to financial stability. This package included the Interbank Market Support Act (Interbankmarktstärkungsgesetz, "IBSG"), which established a state guaranteed clearing bank and a guarantee scheme for securities issued by other credit institutions, and the Financial Market Stability Act (Finanzmarktstabilitätsgesetz, "FinStaG"), which permitted state guarantees for individual institutions as part of a recapitalization process (136th Federal Act). The package was approved by the European Commission (EC) under Article 87(3)(b) of the EC Treaty, which permits state aid that remedies a serious disturbance in a member state's economy (Article 87 of the EC Treaty). For more information on the unique conditions in Austria and specific programs adopted in response, see appendix A.

Program Description

IBSG allowed the Austrian government to guarantee securities issued by Austrian credit institutions. In order to be eligible for guarantee, the securities had to be issued by credit institutions licensed under the Banking Act and had to have a maturity of five years or less (136th Federal Act). According to IBSG, any securities issued pursuant to section 1, paragraph 1, sub-paragraph 10 of the Banking Act (136th Federal Act) could be guaranteed. This sub-paragraph defines the ability of credit institutions to "[issue] fixed-income securities for the purpose of investing the proceeds in other banking transactions (miscellaneous securities underwriting business)" (Federal Banking Act). The federal government charged a 50 bps fee (Kalss 531-2).[2] IBSG stipulated that the total amount of guarantees outstanding could not exceed €75 billion, which included €4 billion earmarked for the clearing bank, effectively making the budget for guarantees for existing credit institutions €71 billion (136th Federal Act). This was subsequently to €45 billion. There were individual caps laid out for each of the individual banks but the criteria for determining these were not explicitly laid out.

[2] While the fees did comply with ECB guidelines, the Austrian government envisioned the flat 50 basis point fee only for maturities of less than one year, while having a larger fee of 50 basis points plus the lesser of either: (1) the median of the five year CDS spread of its debt instruments from the period of January 1, 2007 to August 31, 2008 or (2) the median of the five year CDS spread for debt instruments of the participant's rating category (based on a sample of large Eurosystem banks) over the same date range.

In order to receive guarantees, participating institutions had to have sustainable business policies and adequate capital ratios. Additionally, institutions were required to lend to corporate entities and individuals, and the government would review their internal compensation schemes (Petrovic and Tutsch 2009). The scheme's budget was subsequently reduced by €15 billion in 2009 and by another €15 billion in 2010 (Measures to Ensure Liquidity of the Interbank Market).

Outcomes

In addition to the clearing bank, six credit institutions participated in the government guarantee program (Measures to Ensure Liquidity of the Interbank Market).[3] Two of the banks, Erste Bank and Raiffeisenzentralbank AG, were two of the largest banks in Austria (Banks in Austria).

The maximum amount each institution could have guaranteed and the amount they used is outlined in the table below:

Credit Institution	Limit	Usage
Erste Bank Group AG	€6 billion	€4 billion and CHF 75 million (approximately €49.7 million)
Kommunalkredit AG	€6.2 billion, CHF 250 million (approximately €165.7 million), JPY 20 billion.	€6.2 billion, CHF 250 million (approximately €165.7 million), JPY 20 billion.
Österreichische Volksbanken AG	€3 billion	€3 billion
Raiffeisen Zentralbank Österreich AG	€4.25 billion	€4.25 billion
Hypo Alpe-Adria-Bank International AG[1]	€1.35 billion	€1.35 billion
KA Finanz AG	€3.25 billion	€3.25 billion

Source: Measures to Ensure Liquidity of the Interbank Market ; Petrovic and Tutsch 2009[4]

After being extended for one year, the issuance window for IBSG expired on December 31, 2010, at which point no new guarantees could be issued (Measures to Ensure Liquidity of

[3] The six banks were ERSTE Bank, Hypo Alpe Adria Bank International AG, KA Finanz AG, Kommunalkredit Austria AG, Raiffeisenzentralbank AG, and Oesterreichische Volksbanken AG

[4] At the time of publication, the only publicly available data on the usage of the guarantee program was in Petrovic and Tutsch's working paper. This paper was published in July 2009, a year and a half before the issuance window closed. Figures have been updated due to additional documents being found.

the Interbank Market). No credit institutions called on the guarantees, and the amount of guarantees outstanding declined steadily before the remaining guaranteed debt matured in June 2014 (Financial Sector Spillovers on Public Finance 30).

II. Key Design Decisions

1. **The IBSG guarantees were part of a broader package of measures adopted in response to the financial crisis**

The guarantee scheme was authorized by the Interbank Market Support Act (IBSG), which established the OeCAG, a clearing bank which could issue government guaranteed debt to facilitate interbank lending, and also authorized the Minister of Finance to provide guarantees for securities issued by credit institutions, as well. It was passed alongside the Financial Market Stability Act (FinStaG) as part of the Austrian Financial Market Stability Package. FinStaG was a set of measures that authorized the Finance Minister to "recapitalize and strengthen the capital base of credit institutions and insurance companies…" This package of measures was introduced in response to the joint call from Euro area countries for national legislation aimed at restoring financial market stability (Austrian Financial Market Stability Package).

2. **The Interbank Market Support Act permitted the Minister of Finance to provide guarantees to credit institutions**

The Interbank Market Support Act (IBSG), which was established to strengthen the interbank market, allowed the Federal Minister of Finance to guarantee securities issued by credit institutions other than the clearing bank pursuant to section 66 of the Federal Budget Act (136th Federal Act).

3. **The European Commission ruled that the guarantee scheme constituted state aid, but was permitted under Article 87(3)(b) of the EC Treaty**

On October 31, 2008, a little less than a week after IBSG was enacted, Austria notified the European Commission (EC) of its passage. In a letter dated December 9, the EC notified the Austrian government that though the guarantee scheme constituted state aid under Article 87(1) of the EC Treaty, it was permitted under Article 87(3)(b) of the Treaty (Austria: Measures and prolongations under the Law on the stability of the financial markets and on strengthening the interbank market for credit institutions and insurance companies). Article 87(3)(b) permits state aid "to promote the execution of an important project of common European interest or to remedy a serious disturbance in the economy of a Member State" (Article 87 of the EC Treaty). This decision was consistent with an earlier communication published by the EC, which stated that Article 87(3)(b) could be used as a legal basis for aid measures like general schemes to address the financial crisis (Communication 2008/C 270/02).

4. **The Austrian Ministry of Finance was responsible for administering the scheme.**

5. Initially, the outstanding guarantees could not exceed €75 billion

IBSG stipulated that any measures taken by the Austrian government under IBSG could not exceed €75 billion in outstanding funds (136th Federal Act). Of this amount, €4 billion was explicitly earmarked for guaranteeing the losses of the clearing bank, OeCAG. The total budget was reduced by €15 billion in 2009 and by another €15 billion in 2010, making the new total €45 billion. (Measures to Ensure Liquidity of the Interbank Market).

6. Credit Issuers licensed in Austria were eligible to participate.

According to IBSG, the Minister of Finance was only allowed to guarantee securities issued "by a credit institution entitled to carry out other securities issuing business under a license" pursuant to the Banking Act (136th Federal Act).

7. The Federal Minister of Finance could issue guarantees for any securities issued pursuant to the Banking Act.

According to IBSG, any securities issued pursuant to section 1, paragraph 1, sub-paragraph 10 of the Banking Act (136th Federal Act) were eligible for the guarantee. This sub-paragraph defines the ability of credit institutions to "[issue] fixed-income securities for the purpose of investing the proceeds in other banking transactions (miscellaneous securities underwriting business)" (Federal Banking Act).

8. Maturities of securities could not exceed five years

Securities were only eligible for government guarantee if they had a maturity of five years or less (136th Federal Act). The government does not appear to have established minimum maturity requirements for eligible debt

9. All currencies appear to have been eligible.

Guarantees were also issued on CHF and JPY debt, as well.

10. Caps were set individually on institutions' participation.

As evident from the outcome data, caps were established for each participating institution separately (Petrovic and Tutsch 2009). However, it is unclear what criteria were used to determine these caps.

11. The government charged a 50 bps fee for the guarantee.

The authorizing legislation stated that the government had to charge a fee for assumption of liability based on market conditions (136th Federal Act). It seems that the government determined that setting a flat 50 bps fee in addition to loan interest conformed to this requirement (Kalss 531-532).

12. Participating institutions agreed to certain other conditions

In order to receive guarantees, participating institutions had to have sustainable business policies and adequate capital ratios. In addition, institutions were required to lend to corporate entities and individuals, and the government would review internal compensation schemes (Petrovic and Tutsch 2009).

13. The issuance window for guarantees initially lasted until December 31, 2009, but was extended to December 31, 2010

Originally, guarantees under IBSG could only be issued until the end of 2009. This issuance window was extended until December 31, 2010 (Measures to Ensure Liquidity of the Interbank Market).

III. Evaluation

The limited analyses of IBSG have largely focused on the clearing bank, ignoring the effects of the broader guarantee scheme for other Austrian credit institutions. In their analysis, Posch et al note that Austrian banks' liquidity risk declined but the interbank market was not fully restored following the introduction of the bank package, though they do not disentangle the effects of the two components of IBSG (67).

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V. Key Program Documents

Summary of Program

- Measures to Ensure Liquidity of the Interbank Market – *Austrian Federal Ministry of Finance description of the Interbank Market Support Act and OeCAG* https://english.bmf.gv.at/financial-sector/measures-liquidity-interbank-market.html

- Austrian Financial Market Stability Package – *Austrian Federal Ministry of Finance overview of crisis response package including IBSG* https://english.bmf.gv.at/financial-sector/austrian-financial-market-stability-package.html

- Austrian Stability Programme for the period 2008 to 2013 – *Austrian Federal Ministry of Finance report detailing its stability program during the financial crisis* http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/20_scps/2008-09/01_programme/at_2009-04-21_sp_en.pdf

- National Rescue Measures in Response to the Current Financial Crisis – *ECB Legal Working Paper summarizing crisis response measures taken by EU member states,* *including Austria's guarantee program* https://www.ecb.europa.eu/pub/pdf/scplps/ecblwp8.pdf?23b81a456ecb550cfcd1b693d4f10685

- List of guaranteed issuance by institution – *Austrian Ministry of Finance official list as of December 31, 2010.* *https://web.archive.org/web/20130324030520/https://www.bmf.gv.at/Finanzmarkt/ManahmenpaketzurSic_9175/aBelebungdesInterba_9176/BundeshaftungfrWert_9183/26_Guaranteed_Notes_31.12.2010.pdf*

Legal/Regulatory Guidance

- 136th Federal Act – *Group of Austrian acts, including the Interbank Market Support Act (IBSG)* https://www.volksbankwien.at/m101/volksbank/m101_oevag/downloads/bonds_struk_anleihen/english_version_of_interbank_market_act.pdf

- Guarantee of the Republic of Austria Agreement – *Template for guarantee agreement from the Federal Ministry of Finance.* https://web.archive.org/web/20130324030456/https://www.bmf.gv.at/Finanzmarkt/ManahmenpaketzurSic_9175/aBelebungdesInterba_9176/BundeshaftungfrWert_9183/06_Garantie_f._Einzelemissionen__engl.__-_mit_Briefkopf.pdf

Key Academic Papers

- Measures by the Austrian Regulatory Authorities in Response to the Financial Market Crisis (Kalss 2010) – *paper analyzing the Austrian government's response to the financial crisis*. https://doi.org/10.1017/S1566752910400026

- Crisis Management Around the World (Woll 2014) – *chapter comparing national responses to the financial crisis*.

Reports/Assessments

- EU Bank Packages: Objectives and Potential Conflicts of Objectives – *study by Austria's central bank comparing responses to the financial crisis across the EU.* https://ssrn.com/abstract=1734904

VI. Appendix A

In Europe, the interbank market was hit particularly hard by the global financial crisis. Unsecured interbank loans were charged high premiums, market liquidity dried up, and maturity terms shrunk throughout late 2007 and early 2008 before the interbank market largely ceased functioning following the collapse of Lehman Brothers in September (Posch et al 66). In Austria, financial institutions were affected by exposure to Lehman Brothers and

Icelandic banks, as well as their activity in Central and South East European markets (Kalss 528).

In response to these conditions, Euro area countries convened at a summit in October 2008. The meeting resulted in a joint action plan calling for national governments to "improve market functioning over longer term maturities" through the introduction of guarantee programs for bank senior debt issuance (Declaration on a Concerted European Action Plan of the Euro Area Countries). In Austria, this call was met by the passage of a financial market stability package that contained the Interbank Market Support Act (IBSG) and the Financial Market Stability Act (FinStaG).

IBSG had two main components. First, it called for the establishment of a new, privately owned clearing bank to facilitate interbank lending. The bank, Oesterreichische Clearingbank AG (OeCAG) conducted regular auctions to match available deposits with demands for credit. OeCAG could issue securities guaranteed by the federal government, and the government also pledged to cover a certain amount of the clearing bank's losses. For additional detail on the clearing bank, see the case on OeCAG. Second, it allowed the government to guarantee securities with maturities of five years or less issued by other credit institutions. For more information on the IBSG guarantee scheme, see the case on IBSG. FinStaG allowed the Federal Minister of Finance to recapitalize and strengthen the capital base of specific credit institutions and insurance companies. For more information, see the case on FinStaG.