

Economic Stabilization Advisory Group | November 26, 2008

Governmental Assistance to the Financial Sector: an Overview of the Global Responses (v2)

Governments across the world have taken, and continue to take, a variety of extraordinary measures to protect the financial sector and prevent a recession.

The measures fall into the following categories:

- guarantees of bank liabilities;
- retail deposit guarantees;
- central bank assistance measures;
- bank recapitalization through equity investments by private investors and governments; and
- open-market or negotiated acquisitions of illiquid or otherwise undesirable assets from weakened financial institutions.

The purpose of this publication is to provide an overview of the principal measures that have been taken in the major financial jurisdictions to support the financial system. The first version of this note was published on November 11, 2008. Since then Governments in some jurisdictions have adopted further measures or amended measures previously adopted. The current version of the note takes into account those measures and is based on information available to us on November 26, 2008.

This publication does not cover various new regulatory restrictions on short selling. A separate Shearman & Sterling LLP publication, “Global Clampdown on Short Selling: an Overview”, deals with those measures as adopted in the major financial jurisdictions. A copy can be obtained at: http://www.shearman.com/esag_111108/.

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Five new jurisdictions have been added to the publication: Austria, Brazil, Bulgaria, Finland and Slovenia.

¹ All sections except the UAE have been updated since the first publication, published on November 12, 2008.

All additions and updates are noted in blue text.

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GUARANTEES OF BANK DEBT	DEPOSIT GUARANTEES	SPECIAL CENTRAL BANK ASSISTANCE MEASURES	RECAPITALIZATION MEASURES	PURCHASES OF TROUBLED FINANCIAL ASSETS	OTHER MEASURES
	<p>The Government of Iceland has repeatedly (in press releases and Ministerial statements) declared that all bank deposits in domestic commercial banks, savings banks and their branches in Iceland are fully guaranteed. The statement, which does not have the force of law, only extends to domestic deposits and not to deposits with Icelandic banks held overseas.¹</p> <p>On October 6, 2008, the Act on Authority for Treasury Disbursements due to Unusual Financial Market Circumstances, etc. was passed with immediate force by the Icelandic Parliament. According to the Act, all deposits shall take priority over all general and unprioritized claims against the financial undertaking.</p> <p>The Icelandic Financial Supervisory Authority (the "FSA") has decided to transfer a part of Landsbanki, Glitnir and Kaupthing operations to new banks that have been formed and are fully owned by the Icelandic State. The decision means, <i>inter alia</i>, that the new entities take over all of the "old" entities' deposits in Iceland. Furthermore, the decision states that the new entities will take over the obligations of the branches of the "old" entities, in Iceland due to deposits from financial undertakings, the</p>	<p>On October 15, 2008, the Board of Governors of the Central Bank of Iceland decided to lower the policy interest rate by 3.5% to 12%.</p> <p>On October 28, 2008, as a condition of the loan from the IMF, Iceland's central bank raised interest rates by a massive 6% to 18%.</p> <p>Iceland's central bank also said it had applied to the United States Federal Reserve and the ECB for extra funding. Iceland has already said it needs another \$4 billion in loans on top of the \$2 billion it is seeking from the IMF, which it is securing from some Nordic and other central banks.</p>		<p>Glitnir: On October 14, 2008, the FSA decided to transfer a part of Glitnir's operations to a new bank that has been formed and is fully owned by the Icelandic State, the New Glitnir. The decision means, <i>inter alia</i>, that the New Glitnir takes over all of Glitnir's deposits in Iceland, and also the bulk of the bank's assets that relate to its Icelandic operations, such as loans and other claims. An independent evaluation of the value of assets and liabilities, together with a final settlement will be made within 90 days of the transfer date. The new bank's equity will, according to information on the FSA's webpage, be ISK 110 billion and the size of the balance sheet will be around ISK 1,200 billion.</p> <p>Landsbanki: On October 9, 2008, the FSA decided to transfer a part of Landsbanki's operations to a new bank that has been formed and is fully owned by the Icelandic State, the New Landsbanki. The decision means, <i>inter alia</i>, that the New Landsbanki takes over all of Landsbanki's deposits in Iceland, and also the bulk of the bank's assets that relate to its Icelandic operations, such as loans and other claims. An independent evaluation of the value of assets and liabilities, together with a final settlement will be made within 30 days from</p>	<p>On October 24, 2008, the Icelandic Government reached an agreement <i>ad referendum</i> with a mission from the IMF on an economic stabilization program that could be supported by a stand-by arrangement with the fund. It is stated that the economic program will be supported by an SDR 1.4 billion (US\$ 2 billion) loan under a two-year Stand-By-Arrangement. Iceland would be able to draw SDR 560 million (US\$ 830 million) immediately after the Board approval. It is also expected that an agreement with the IMF will encourage lending from other sources.</p> <p>A Letter of intent was sent to the IMF on November 3, signed by the Minister of Finance and the Chairman of the Board of Governors of the Central Bank.⁵</p> <p>On November 19, 2008, the Executive Board of the IMF approved Iceland's request for a two year stand-by arrangement. Iceland will receive US\$ 2.1 billion from the IMF. Additional loans of up to US\$ 3 billion have been secured from Denmark, Finland, Norway, Sweden, Russia and Poland. The Faroe Islands have announced that they would lend Iceland US\$ 50 million. The funds made available through the IMF will be used to support</p>

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	<p>Icelandic Central Bank and other customers.</p> <p>Icesave: It was reported on October 22, 2008 that the UK and Iceland are hoping to agree on a loan of up to £3 billion to cover British depositors in Icesave, the online banking unit of Landsbanki, the collapsed Icelandic bank.³</p> <p>It was reported on October 11, 2008, that the Dutch and Icelandic Governments have agreed on a solution regarding the Dutch depositors of Landsbanki IceSave savings accounts.</p> <p>The agreement states that the Icelandic government will compensate each Dutch depositor up to a maximum of €20,887. The Dutch Government will provide a loan to Iceland to enable this restitution and the Dutch Central Bank is to settle the depositors' claims.</p> <p>On November 16, 2008, the government of Iceland agreed to cover deposits of insured depositors in the so-called IceSave accounts in accordance with EEA law. They also entail that the EU, under the French Presidency, will continue to participate in finding arrangements that will allow Iceland to restore its financial system and economy. Furthermore, it was agreed to</p>			<p>the transfer date. The new bank's equity will, according to information on the FSA's webpage, be ISK 200 billion and the size of the balance sheet will be around ISK 2,300 billion.</p> <p>Kaupthing: On October 21, 2008, the FSA decided to transfer a part of Kaupthing's operations to a new bank that has been formed and is fully owned by the Icelandic State, the New Kaupthing. The decision means, <i>inter alia</i>, that the New Kaupthing takes over all of Kaupthing's deposits in Iceland, and also the bulk of the bank's assets that relate to its Icelandic operations, such as loans and other claims. An independent evaluation of the value of assets and liabilities, together with a final settlement will be made within the next 90 days from the transfer date. The new bank's equity will, according to information on the FSA's webpage, be ISK 75 billion and the size of the balance sheet will be around ISK 700 billion.</p> <p>Kaupthing's U.K. subsidiary, Kaupthing, Singer & Friedlander Ltd., has been placed in administration.</p> <p>Certain other subsidiaries of the Icelandic banks have either been sold or placed in administration by local authorities.</p>	<p>the currency, the Icelandic krona, which will be floated as soon as possible. It is to be expected that the currency market will stabilize soon and that international money transfers will subsequently return to normal.⁶</p>

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	facilitate financial assistance to Iceland, including agreeing on a stabilization package from the IMF. ⁴				

¹ It should be noted that a significant volume of banking business by Iceland's banks is conducted overseas.

² Icesave, the online British arm of Landsbanki, announced that its customers can no longer withdraw or deposit money. More than 300,000 British customers had around £4 billion deposited in Icesave accounts and now face the prospect of making a claim under the U.K. government deposit guarantee scheme. Depositors with more than £50,000 and non-retail depositors are not protected by this scheme.

³ The decisions of the Icelandic Financial Supervisory Authority due to unusual circumstances are posted on the following website (in English translation): <http://www.fme.is/?PageID=867>.

⁴ A press release from the Prime Minister's Office of the Agreed Guidelines Reached on Deposit Guarantees is posted on the following website (in English translation): <http://eng.forsaetisraduneyti.is/news-and-articles/nr/3229>.

⁵ The Letter of intent in English is posted on the following website: <http://www.forsaetisraduneyti.is/media/Skyrslur/LOI.pdf>.

⁶ A press release from the Prime Minister's Office is posted on the following website (in English translation): <http://eng.forsaetisraduneyti.is/news-and-articles/nr/3272>.