

## **State aid: Commission presents guidelines on restructuring aid to banks**

Competition Commissioner Neelie Kroes said: "The financial crisis may not be over yet, but we need to start working seriously with Member States to restructure European banks. We need to make banks viable again without state support and to re-invigorate competition in the Single Market. The guidelines adopted today will be a useful tool for banks and Member States by explaining the criteria the Commission will apply to restructuring aid for banks in the current period. It complements our previous guidance on state guarantees, recapitalisation and the treatment of impaired assets".

The Commission has to deal with a large number of individual cases of bank restructuring, which follow from bank rescue aid measures approved on the condition that a restructuring plan would be submitted within six months. In order to foster transparency, predictability and equality of treatment between Member States, the Commission has issued guidelines to clarify its approach, the criteria it will base its assessment upon and the type of information required to guide this assessment. These guidelines are based on Article 87.3b) of the EC Treaty, which authorises state aid in case of a serious disturbance in the economy. They will be temporary and apply until the end of 2010. After that date, the normal rules on rescue and restructuring, based on Article 87.3c) of the Treaty (aid for the development of certain economic activities or areas where such aid does not adversely affect trading conditions to an extent contrary to the common interest) should resume.

### **Financial stability**

The Commission Communication on bank restructuring complements the guidance on the assessment of state aid for banks that the Commission has adopted since the beginning of the financial crisis concerning guarantees, recapitalisation and the treatment of impaired assets. These previous guidelines have explained in particular under which conditions banks are required to submit a restructuring plan. The new Communication outlines how the Commission will use competition rules to support financial stability. Banks' return to viability is the best guarantee for stability and for their sustained ability to lend to the economy.

### **Stress test**

In this context, the Communication emphasises that in order to devise strategies for a sustainable future, banks will have to stress test their business. This requires a diagnosis of the bank's strengths and weaknesses, which may lead to revisiting the business model of the bank, disclosing and dealing with impaired assets, withdrawing from loss making activities or even considering absorption by a viable competitor or orderly winding up.

The Communication makes clear that aided banks and their capital holders must bear adequate responsibility for their past behaviour and contribute to the restructuring of the bank as much as possible with their own resources. This requires in particular that the state is correctly remunerated for the aid it gives. Where this is not possible immediately due to market circumstances, such burden-sharing will be required at a later stage.

Finally, the Communication analyses the distortions of competition resulting from the state aid to banks and presents measures to limit them. Distortions may come from prolonging the bank's inadequate or excessively risky past behaviour and/or from maintaining its market presence to the detriment of competitors. Large state support may require some adjustments including structural measures, such as divestitures (which can be spread over a number of years in the current crisis), or behavioural measures, such as constraints on acquisitions or on aggressive pricing and marketing strategies funded by state aid. Given the number of simultaneous restructuring cases, this analysis will pay particular attention to national market structures, in order to preserve the integrity and contestability of the Single Market.

**[See the full text of the Guidelines on restructuring aid to banks](#)**