

## **Extension of the Eligible Liabilities Guarantee (ELG) Scheme and introduction of the option to make unguaranteed deposits**

Please see below two related press releases on the Eligible Liabilities Guarantee (ELG) Scheme and the introduction of an option to make unguaranteed deposits.

If you have any queries, please contact the Department of Finance Press Office.

### **A . Extension of the ELG Scheme**

The Minister for Finance, Mr. Michael Noonan, T.D., today announced that, following a Government Decision, he was extending the Eligible Liabilities Guarantee Scheme for a further period of one year to 31 December, 2012.

On the advice of the Governor of the Central Bank, the Minister proposes to extend the issuance period of the Scheme beyond the current date of 31 December 2011, and will be placing a Statutory Instrument before the Houses of the Oireachtas shortly which will enable this issuance period to extend to 31 December 2012.

This extension will, as normal, be subject to EU state aid approval every six months – which is the maximum period permitted for such approval under the European Commission’s policy on guarantee schemes in the financial sector. The initial approval covering the period up until 30 June, 2012, is expected to be given for the extension by the Commission in due course. As is customary, the Department of Finance has consulted with the European Central Bank on this measure and has obtained an opinion which *inter alia* states that ‘Taking into account financial stability considerations, a further extension of the ELG Scheme would be beneficial’.

The extension of the Scheme means that the existing State guarantee will continue to be available for both eligible short- and long-term liabilities, including retail deposits, until 31 December, 2012.

The continuation of the Scheme is an important support to the Irish Banking system and complements the steps that have already been taken to help restore it to a sound footing.

### **Notes for Editors**

1. The State guarantees certain eligible deposits and debt securities under the Credit Institutions (Eligible Liabilities Guarantee Scheme, 2009).
2. The Scheme, which was introduced in 2009, guarantees specific issuances of short- and long-term eligible bank liabilities, including on-demand and term deposits, senior

unsecured certificates of deposit, senior unsecured commercial paper, senior unsecured bonds and notes and certain other senior unsecured debt whose maturity can range from overnight to five years.

3. The period during which a guaranteed deposit can be made or a guaranteed debt issued under the Scheme, referred to as the issuance period, currently runs until the end of 2011.

4. In order to extend this issuance period to 31 December, 2012, a Statutory Instrument will need to be introduced to this end and put before the Houses of the Oireachtas (Parliament) before the end of this year.

5. The Participating Institutions in the Scheme (banks or building societies and subsidiaries that have joined the ELG Scheme to date) are: Irish Life and Permanent plc; Irish Permanent (IOM) Limited; Irish Nationwide (I.O.M.) Limited; Bank of Ireland; Bank of Ireland Mortgage Bank; Bank of Ireland (UK) plc; The ICS Building Society; Bank of Ireland (IOM) Limited; Allied Irish Banks, p.l.c.; AIB Group (UK) p.l.c.; AIB Bank (CI) Limited; AIB Banks North America Inc; EBS Limited; AIB International Savings Limited; Irish Bank Resolution Company Limited (merger of Anglo Irish Bank Corporation Limited and Irish Nationwide Building Society) .

6. The Participating Institutions pay fees for the State guarantee provided to them under the Scheme. These fees are at present calculated by reference to European Central Bank recommendations (dated 20 October, 2008) on government guarantees for bank debt and by subsequent Commission recommendations for debt incurred after 1 July, 2010.

7. While the ELG Scheme is being extended until 31 December, 2012, it is important to note that as the maturity of guaranteed deposits may vary (from zero to 5 years), the guarantee may run beyond that date. For example, a 3-year term deposit made on 31 May, 2012, will be guaranteed until 31 May, 2015.

8. The Deposit Guarantee Scheme, which covers certain, mainly personal customer deposits of up to €100,000, has no end-date and is not affected by the extension of the ELG Scheme.

## **B. Introduction of the option to make unguaranteed deposits under the ELG Scheme**

Currently all deposits, to the extent not covered by the Deposit Guarantee Scheme (DGS) in the State or in any other jurisdiction, are automatically covered by the Government Guarantee under the ELG Scheme. While an extension of this Scheme, as already mentioned above, has been decided in order to continue to promote financial stability in the banking system, the Minister also recognises the need to allow the banks to offer products where a Government guarantee is not required.

Therefore, following a request from the participating institutions (i.e. those covered by the ELG Scheme) and in accordance with that provision ( Section 13) in the ELG Scheme to limit categories of deposit covered by the Government Guarantee, the Minister for Finance is granting the banks permission to offer customers (apart from those having retail deposits\* as defined in the Rules of the ELG Scheme) the option of making deposits on an unguaranteed basis provided they comply with terms and conditions specified by the Minister in the Notice (see copy attached). The Notice is being published on the NTMA website as is the Scheme Operator.

The option is being confined to corporate and institutional investors at this point (as the banks have indicated that this is where potential demand may be) and will be conditional on: (a) the depositor acknowledging in writing that the relevant deposit will not be guaranteed under the ELG Scheme; (b) the terms of the relevant deposit stating that the deposit will not be guaranteed under the ELG Scheme; and (c) the deposit being made after 16 November, 2011. These conditions make it crystal clear that any decision to place an unguaranteed deposit with a participating institution is a voluntary one and without prejudice to any guarantee that applies to other deposits under the ELG Scheme.

The Minister understands that while the demand to place unguaranteed deposits is still being determined and may be relatively low at this point, the fact that the participating institutions in the ELG Scheme have made their request is a very positive sign of a return of confidence in the banks and the sovereign and should be encouraged. This development, taken with the extension of the Scheme itself, together show that while it may be necessary to continue to provide re-assurance on the security of deposits as a whole in the Irish banking system, there is now evidence that the Government's overall strategy to re-position and strengthen the banking sector is having a positive effect.

It is important to emphasise that all other existing and future deposits (retail and otherwise) will continue to be automatically covered by the ELG (or DGS) Schemes as applicable, in accordance with the terms and conditions of those Schemes.

*\* A retail deposit means a deposit that is an eligible deposit within the meaning given by the European Communities (Deposit Guarantee Schemes) Regulations 1995 (S.I. No. 168 of 1995) and which does not exceed €1,000,000.*

## **Notes for editors**

1. The guarantee under the ELG Scheme covers all deposits issued there under and they are guaranteed for the full duration of their fixed term (which may vary from zero to five years). See also the FAQs on the ELG Scheme on the Department's website.

2. The scope of the changes to the ELG Scheme proposed has no effect on, or implications for, the Deposit Guarantee Scheme (DGS). There is no end-date on the duration of the guarantee for retail deposits up to €100,000 under the DGS (sometimes referred to as the Deposit Protection Scheme) and provision for unguaranteed deposits does not arise here.

16 November 2011