

Banking

Government Bank Guarantee Scheme

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There has been an amount of recent media coverage on what the current position is in relation to the guarantee of deposits and other obligations of Irish banks, but there still seems to be much confusion about the matter. The following summarises the current Government's bank guarantee position.

Deposit Guarantee Scheme

In the first instance there is the separate Deposit Guarantee Scheme which guarantees the first €100,000 per person per financial institution that is authorised by the Central Bank of Ireland to operate in Ireland. The limit on this guarantee scheme was increased from €20,000 to €100,000 in September 2008 when credit unions were included for the first time.

Original Government Bank Guarantee Scheme

In September 2008 the Government introduced a guarantee of certain obligations of credit institutions which joined that scheme. The participating credit institutions were AIB, Bank of Ireland, Anglo Irish Bank, Irish Life and Permanent, EBS, Irish Nationwide Building Society and Postbank. This Government bank guarantee scheme ("Original Scheme") covers the relevant obligations of the respective participating institutions, defined as "Covered Liabilities" in the Rules of the Scheme until 29th September 2010. The Covered Liabilities under the Original Scheme include:

- All retail and corporate deposits;
- Inter-bank deposits;
- Senior unsecured debt;
- Asset covered securities; and
- Dated subordinated debt (Lower Tier 2 capital).

Once the credit institution joined the Original Scheme all its Covered Liabilities were covered by the Original Scheme until 29th September 2010.

New Government Bank Guarantee Scheme

On 9th December 2009 the Government introduced a new bank guarantee scheme referred to as the Eligible Liabilities Guarantee Scheme (“ELG Scheme”). The ELG Scheme applies to the credit institutions which applied to join the scheme, the application for which had to be made within 60 days of the introduction of the ELG Scheme on 9th December 2009. The credit institutions which joined the ELG Scheme (“Participating Institutions”) are AIB, Bank of Ireland, Irish Life and Permanent, Anglo Irish Bank (now IBRC), Irish Nationwide and EBS. The liabilities of the relevant credit institution covered by the ELG Scheme (“Eligible Liabilities”) are not as extensive as those covered by the Original Scheme and are:

- Deposits (to the extent not covered by the Deposit Guarantee Scheme in Ireland or any other jurisdiction);
- Senior Unsecured Debt which includes Senior Unsecured Certificates of Deposit, Senior Unsecured Commercial Paper and other Senior Unsecured Bonds and Notes.

It does not cover undated subordinated debt and covered bonds which had been covered by the Original Scheme.

In order to be covered by the ELG Scheme,

- The Eligible Liabilities must be incurred between the dates that the relevant Participating Institution has joined the ELG Scheme (the “Relevant Date”) and 30 June 2012.
- The Participating Institution must apply to the Minister for Finance for the relevant liabilities to be guaranteed (other than deposits which are automatically covered once the credit institution has become a Participating Institution).
- Those Eligible Liabilities must then be granted an Eligible Liabilities Guarantee Certificate (“ELG Certificate”). The ELG Certificate can be given either in respect of specific Eligible Liabilities or for all securities issued under a programme.

All such Eligible Liabilities having the benefit of an ELG Certificate may be issued with maturities of up to five years provided they are issued on or before 30 June 2012.

In relation to deposits, those created after the Relevant Date are automatically covered under the ELG Scheme. However, the Participating Institution may apply to seek to limit the application of the ELG Scheme guarantee to certain types or categories of deposits. Consequently it is open to the Participating Institution to decide to take certain deposits on a non-guaranteed basis. All on-demand deposit accounts and current accounts of Participating Institutions will be guaranteed under the ELG Scheme until 30 June 2012 unless a Participating Institution has applied to limit the application of the ELG Scheme guarantee to certain deposits.

However, the ELG Scheme does extend the Government guarantee for some deposits after 30 June 2012 and this is in respect of fixed term deposits for up to five years. In order to be covered by the ELG Scheme guarantee however, such fixed term deposits must have been placed with the Participating Institution after the Relevant Date and before 30 June 2012.

Conclusion

It is important to note that the first €100,000 of any deposit will be guaranteed under the Deposit Guarantee Scheme. The Original Scheme and the ELG Scheme are additional guarantee schemes.

Critically in order for a deposit to be covered under the ELG Scheme after 30 June 2012, the deposit must be a fixed term deposit and have been created with a Participating Institution after that Participating Institution joined the ELG Scheme.

Any existing deposits placed with a credit institution prior to that institution joining the ELG Scheme will continue to be covered by the Original Scheme (where the credit institution participated in that Original Scheme).

This note is intended to provide a general overview and guidance. It is given wholly without any liability or responsibility on the part of Eugene F. Collins and does not replace the necessity to obtain legal advice.

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