

13 October 2008

Package of measures to stabilise the financial markets and avoid adverse effects on the real economy

The German financial system makes a major contribution to the functioning of the entire economy and, as a consequence, to growth and employment in Germany. Without a functioning financial system, people's and companies' access to borrowing is disrupted, and citizens are no longer in a position to save safely and at a profit. The ability of the German financial system to function is suffering from the impact of the current financial-market crisis. The German Government will therefore take all the necessary action to guarantee the financial system's stability and ability to function. The central task is to restore confidence between market participants. These extraordinary market conditions may require extraordinary measures. The German Government is convinced that the current action to avert danger is of paramount importance so that trust in our economic system can be secured. As agreed with the other countries of the euro zone, the measures are generally limited until 31 December 2009.

The issue here is not about protecting banks and other financial institutions, but about protecting the population.

The package of measures has been agreed with our European and international partners. The measures fit within the framework agreed by the European G8 heads of state and government at their meeting in Paris on 4 October 2008; we also take into consideration the decisions of the Council of European Union Finance Ministers of 7 October 2008 as well as of the meeting of G7 finance ministers and central bank governors on 10 October 2008. There has been especially close coordination with those countries with which we share a common currency, namely the members of the euro zone. This close consultation took place on 12 October at a meeting of the heads of state and government of the euro-zone countries together with the President of the European Commission in Paris.

Following consultations with the Bundesbank, BaFin and leading representatives of the financial industry, the German Government will take the following measures to stabilise the

financial market, to safeguard the supply of capital for the German economy and to protect savers and investors:

1. The German Government is emphatically urging the responsible bodies to achieve fair conditions of competition through rapid international harmonisation of the applicable accounting standards. The necessary changes include, in particular, the application of valuation methodologies in the case of illiquid markets and the comprehensive option to reclassify financial instruments. The new rules should thus enter into force in time for them to be able to take effect for the financial statements for the third quarter of 2008.
2. The German Government will establish a Federal Government special fund for which the Federation is liable (financial-market stabilisation fund). Funding for the fund will be raised by issuing debt securities up to a maximum of €100 billion.
3. The German Government will use the financial-market stabilisation fund, restricted until 31 December 2009, to adopt measures to secure the refinancing of German financial institutions. These measures affect safeguards for newly - following the law's entry into force - issued refinancing instruments up to 36 months.

For this purpose, the financial-market stabilisation fund will, in return for an appropriate fee, make guarantees of up to €100 billion available. In terms of fund budgeting, the German Government is making provision for defaults of 5% of the amount of the guarantee.

The safeguard will be put in place via a direct guarantee from the financial-market stabilisation fund. The special statutory provisions in Germany mean that *Pfandbriefe* are already safe – throughout the more than 200-year long history of this product, there has never been a default of a German *Pfandbrief*. The German Government will ensure that this continues to be the case in future as well. Where the functioning of the *Pfandbrief* market so requires, the German Government will therefore adopt short-term statutory measures to secure German *Pfandbriefe* – taking into account the existing stock.

4. The financial-market stabilisation fund may recapitalise companies using various instruments in line with the legal form of the company (for example, using non-voting preferential shares, shares and hybrid capital such as participation certificates). Where necessary, statutory provisions, for example, on the crediting of hybrid capital to tier 1 capital, will be supplemented within the framework of the options available under European law.

The use of these recapitalisation funds of a maximum €80 billion is subject to appropriate conditions. The recapitalisation through the financial-market stabilisation fund will be subject to conditions that ensure fair competition between all financial institutions, safeguard the interests of taxpayers and existing owners as well as call management to account (for example, through requirements regarding business strategy, management remuneration, dividend payments or loans to SMEs). It is possible for the fund to extend capital up until 31 December 2009.

5. Alongside German financial institutions, German subsidiaries of foreign institutions also have access to these measures. The precondition is that the companies are solvent. In exceptional cases, the financial-market stabilisation fund can salvage systemically important, distressed companies where this is connected with a clear prospect of restructuring.

The financial-market stabilisation fund falls under the jurisdiction of the Federal Ministry of Finance and will be managed by the Bundesbank according to guidelines set by the Ministry; external capacities may be drawn on for support where necessary.

Should there still be a need, despite the upcoming new accounting practices, the fund has the option to acquire problematic assets or to cover such to final maturity in order to thus ensure further relief for the capital base.

6. The Bundesbank will take rapid steps to secure the liquidity of money market funds and near-market money funds established under German law. This can be done through the temporary provision of special liquidity support available in return for collateral at the Bundesbank.

7. Within this very year, we will present amendments to laws on financial-market oversight, which improve the ability of financial regulators to intervene in times of crisis. During this legislative period, the German Government will present proposals for closer institutional coordination between the Bundesbank and BaFin as well as for improving European and international financial-market supervision.
8. We will also develop proposals this year that improve the existing statutory deposit guarantee that is based on EU law.

Furthermore, the commitment stands that no savers in Germany will lose a euro of their deposits because of the financial crisis. To this end, the German Government will ensure existing guarantee schemes' full ability to pay where necessary.

9. 8. Safeguarding financial-market stability is a task for the state in its entirety. The *Länder* (federal states) will therefore bear their share of the burden of the financial-market stabilisation fund according to the distribution of burden at a ratio of 35:65, stipulated as an outcome of the Federal Commission I in Article 109, paragraph (5), of the *Grundgesetz* (Basic Law). A special financial contribution from a *Land* is necessary where financial institutions, in which a *Land* has a holding, may fall back on the measures contained in this package.