

ITALIAN MEASURES

The Heads of State and Government of the Euro area met in Paris yesterday. They adopted a set of measures to promote banks' liquidity, funding capacity and solvency. Together with the decisions made at the Ecofin Council of October 7, these measures aim at guaranteeing the necessary flow of credit to the real economy, families and businesses.

The Italian Government adopted two decree laws, one on October 8 and another one today, to implement the decisions made at the European level, with the aim of protecting savings and restoring the normal functioning of the credit markets. The measures adopted are immediately effective.

Market mechanisms continue to be preferred, State intervention is foreseen only when they do not function properly. In the event of a severe crisis, which may threaten the stability of the financial sector, a bank can be put under conservatorship.

The Decree Law n. 155 of October 8 authorizes the Ministry of the Economy and Finance to subscribe or guarantee the subscription of capital raisings decided by banks incorporated in Italy. A necessary condition for intervention will be the existence of a three-year stabilization and reinforcement plan, presented by the requesting bank and judged to be adequate by the Bank of Italy. So long as the MEF continues to hold equity in the bank, any substantial change in the bank's stabilization and reinforcement plan is subject to prior approval by the MEF in consultation with the Bank of Italy. For the entire holding period, the equity held by the MEF will be in the form of preferred shares, senior to all other categories of shares in the distribution of dividends and may be subject to limited voting rights.

In order to deal with serious liquidity crises ("emergency liquidity assistance") the MEF may issue a guarantee for any refinancing provided by the Bank of Italy to banks incorporated in Italy as well as to Italian branches of foreign banks.

The MEF is furthermore authorized to issue a State guarantee in favour of individual depositors in Italian incorporated banks for a period of 36 months, in addition to the existing deposit guarantee system.

Today, the Council of Ministers approved a second decree law providing additional measures to facilitate bank funding.

In order to restore the market for banks' medium-term financing, the MEF may issue a State guarantee on new liabilities of Italian banks with a maturity up to 5 years and issued until 31 December 2009. The guarantee is given at market conditions and requires an assessment by the Bank of Italy on the basis of similar criteria applied in cases of capital raisings.

In order to deliver government bonds as collateral for banks' refinancing with the ECB, the MEF is authorized to enter into temporary swap arrangements between government bonds and debt instruments held or issued by Italian banks with maturity up to 5 years and issued after the entry into force of the present Decree Law. Charges to be applied to banks under these arrangements will be determined according to prevailing market conditions. For the same purpose, and always at market conditions, the MEF may issue a State guarantee on securities lending arrangements which Italian banks enter into, including with private non bank entities.