

EU to require stress-testing of banks

New plan for lenders that took state aid

Results will not be made public

By Nikki Tait in Brussels

All banks that have received government support to see them through the economic crisis will have to "stress test" their restructuring plans – and consider the impact of a protracted global recession – when they seek approval under EU state aid rules.

Issuing final guidelines for bank restructuring, the European Commission confirmed that plans would need to take account of "the present state of and future prospects of financial markets, reflecting base-case and worst-case assumptions".

This stress-testing should, as much as possible, be based on common EU parameters, such as those developed by the London-based Committee of European Banking Supervisors.

But senior competition officials made clear that they expected the results to be shared only between themselves, the banks and national supervisory authorities. Philip Lowe, the Commission's director-general for competition, said the department would be "wary of a public debate" and believed the behind-the-scenes activity would still "silently install a discipline" on ailing banks.

This contrasts with the US situation, where much more publicity has been given to the results of stress-testing among the country's biggest banks.

The new EU guidelines are largely in line with draft versions, and will apply to dozens of banks that were given emergency aid by national governments when the financial crisis was at its height last year.

To prevent these institutions from enjoying a competitive advantage, EU rules require that longer-term restructuring plans are approved by Brussels. Mr Lowe said that "30 or so banks" were in the pipeline, of which about half were in the process of submitting restructuring plans, including RBS and Lloyds, which he revealed had now made formal submissions.

The new guidelines make clear that the implementation of bank restructuring plans – which are likely to involve downsizing or asset sales – can be extended over as much as five years, compared with the normal two-to three-year timetable.

Officials might also allow the bank's own contribution to the costs of restructuring to be lower than the 50 per cent threshold fixed in the normal rules. And they will not apply the normal "one time, last time" rule to aid, because of the current economic uncertainty – meaning that plans could be revisited.

But aided banks are likely to face behavioural restrictions – and will generally be barred from using state funds to buy competing businesses for three years. Banks that are not deemed to be distressed and have received only limited state support will escape the restructuring plan demand.

