

# Implementation of the extraordinary mechanism for paying suppliers of Spain's Autonomous Communities

On 17 April 2012, the Official State Gazette published Order PRE/774/2012, of 16 April, containing the Decision of the Government Delegate Commission for Economic Affairs dated 22 March 2012, on the implementation the mechanism for paying suppliers of Spain's Autonomous Communities.

## 1. Borrowers of the debt operation, obligations included, applicable terms and rates

- a) The **borrowers** of the debt operation are the Governments of the standard regime Autonomous Communities who opt to avail of the mechanism.
- b) The obligations under the mechanism are the **principal of the obligations** that are due, liquid and enforceable prior to 31 December 2011 and pending payment, including Value Added Tax or, if applicable, the Indirect General Tax for the Canary Islands, and without including interest, legal costs or any other accessory expenses, and that are included in the certified and updated lists presented by the Autonomous Communities.
- c) The operations will be performed in a maximum **term** of ten years, with a grace period of two years for repayment of the principal, and will be arranged with sufficient flexibility to facilitate early cancellations.
- d) The **interest rate** for the borrower will be the equivalent of the financing cost for the Public Treasury in the terms indicated plus a maximum margin of 115 basis points and a brokerage margin of a maximum of 30 basis points.

## 2. Access to the mechanism and payment

The Ministry of the Treasury and Public Administration will authorise access to the financing mechanism and the maximum amount to be formalised for each Autonomous Community.

There will be a first validation of the lists mentioned above, which will be updated with the lists supplied by the Autonomous Communities in the first five working days of May and June, leading to a first payment of suppliers, once the priority criteria have been applied.

## 3. Priority criteria. Optional discount

The Ministry of the Treasury and Public Administration will specify the amounts to be transferred to each of the contractors, according to the following order of priority:

- a) The oldest outstanding obligation.
- b) Suppliers who are small or medium-sized enterprises or self-employed. Among these, those with the oldest outstanding obligations will take precedence over more recent ones.
- c) Suppliers who sought enforcement of their collection right before the Courts prior to 1 January 2012.

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Among these, those with the oldest outstanding obligations will take precedence over more recent ones. Contractors will be entitled to avail of this mechanism in order to obtain payment of any outstanding obligations. Contractors may also voluntarily notify the Autonomous Community of any decision to accept a **discount** on the principal.

#### 4. Adjustment plans and monitoring

The Autonomous Communities must obtain a favourable report from the Ministry of the Treasury and Public Administration. In order to do so, they must present an adjustment plan that meets the following requirements:

- a) The estimated resources must cover the non-financial expenses and repayment of the credit acquired under this mechanism, according to the maturity schedule. In any event, they will identify the budget credits provisioned in order to pay the interest and capital of this operation.
- b) The current income forecasts must be consistent with the official estimates on the evolution of the macroeconomic parameters of the Spanish economy and with the evolution of the income actually obtained by the Autonomous Community from 2009 to 2011.
- c) It must contain a description of and schedule for the application of the measures that make it possible to meet the objective of budgetary stability in 2012 and subsequent years.
- d) It must contain a description of and schedule for the application of the structural reforms to be implemented in order to promote economic growth and job creation, as well as the measures to be adopted with a view to reducing the administrative burdens affecting citizens and companies and the quantification of this reduction.
- e) It must contain a schedule for the reduction of the average payment time for contractors and those who have signed agreements in the terms envisaged in Decision 6/2012 of the Fiscal and Financial Policy Council as well as for the application of the plan for restricting the autonomous public sector.
- f) It must contain measures on limiting salaries in commercial or senior management contracts in public sector companies, reducing the number of directors on the Board of Directors of the same and regulating the indemnification clauses in accordance with Royal Decree-Law 3/2012, of 10 February, on urgent measures for the reform of the labour market.
- g) It must contain the undertaking of the Autonomous Community to send all the information that the Ministry of the Treasury and Public Administration considers necessary in order to monitor compliance with the adjustment plan.
- h) It must use the approved model.

The adjustment plan must receive a favourable report from the Ministry of the Treasury and Public Administration, which will publish it. Moreover, with a view to guaranteeing repayment of the amounts derived from the debt operations arranged, the Autonomous Communities who have arranged them may be subject to monitoring on the part of the General Intervention Board of the State Administration. The General Intervention Board will establish the checks to be performed and the scope of the same, in line with the risk detected following assessment of the monitoring reports.

#### 5. Arranging the debt operation and guarantee with the system resources.

The funds necessary for the functioning of the mechanism will come from the credit institutions that voluntarily decide to participate in the financing of the same.

The Official Credit Institute ("**ICO**") will act as agent with the collaboration of the participating credit institutions who must have a management capacity and territorial presence sufficient to provide the formalisation, payment and management services.

Repayment of principal, interest and commissions on the Autonomous Communities' debt operations will be

covered, in the event of non-compliance, by withholding the resources of the financing system for standard regime Autonomous Communities.

Those Autonomous Communities that opt to avail of the mechanism but do not arrange the debt operation will also have their resources under the financing system withheld in order to cover the full amount of the expense derived from payment of suppliers as well as any financial costs that derive from the same.

## CONTACT

### Madrid Office

Paseo de la Castellana 110-Planta 12 (28046 Madrid)

Tel.: +34 91 590 75 00

### Juan José Lavilla

Partner & Head of the Administrative Law Department

[juanjose.lavilla@cliffordchance.com](mailto:juanjose.lavilla@cliffordchance.com)

### Alberto Manzanares

Partner & Head of the Banking & Finance Law Department

[alberto.manzanares@cliffordchance.com](mailto:alberto.manzanares@cliffordchance.com)

### José Guardo

Partner of the Banking & Finance Law Department

[jose.guardo@cliffordchance.com](mailto:jose.guardo@cliffordchance.com)

### José Luis Zamarro

Counsel of the Administrative Law Department

[joseluis.zamarro@cliffordchance.com](mailto:joseluis.zamarro@cliffordchance.com)

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