P.V. FI 32

CHAMBRE DES DEPUTES

Session ordinaire 2011-2012

CC/pk

Commission des Finances et du Budget

Procès-verbal de la réunion du 16 mai 2012

ORDRE DU JOUR :

Visite auprès du Fonds européen de stabilité financière (FESF) de Monsieur le Président de la Chambre des Députés accompagné de membres de la Commission des Finances et du Budget

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Présents : M. Fernand Etgen, M. Jacques-Yves Henckes en remplacement de M. Gast Gibéryen, M. Roger Negri, Mme Martine Mergen en remplacement de M. Gilles Roth, M. Serge Wilmes en remplacement de M. Marc Spautz, Mme Diane Adehm en remplacement de M. Michel Wolter

M. Laurent Mosar, Président de la Chambre des Députés

M. Claude Frieseisen, Secrétaire général de la Chambre des Députés

Mme Carole Closener, de l'administration parlementaire

Excusés : M. François Bausch, M. Fernand Boden, M. Alex Bodry, M. Gast Gibéryen, M. Norbert Haupert, M. Lucien Lux, M. Claude Meisch, M. Gilles Roth, M. Marc Spautz, M. Michel Wolter

*

Présidence : Monsieur Roger Negri, Vice-Président de la Commission

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Visite auprès du Fonds européen de stabilité financière (FESF) de Monsieur le Président de la Chambre des Députés accompagné de membres de la Commission des Finances et du Budget

La délégation parlementaire, conduite par M. Laurent Mosar, a été accueillie au siège du Fonds européen de stabilité financière (FESF) par M. Klaus Regling, Président du FESF, M. Kalin Anev, Secrétaire Général et M. Christof Roche, attaché de presse.

Le FESF a été constitué le 7 juin 2010 sous forme d'une société anonyme de droit luxembourgeois, suite à une décision du Conseil „Affaires économiques et financières" de l'Union européenne en date du 9 mai 2010. Cet instrument intergouvernemental a été créé dans le but d'émettre des obligations et d'accorder des prêts afin de répondre aux besoins de financement des Etats membres de la zone euro qui connaissent des difficultés. Les Etats participant au dispositif devaient fournir des garanties initialement pour le montant total de 440 milliards d'euros. Suite aux prêts octroyés à l'Irlande et au Portugal, il a été décidé de doubler la capacité de prêt du FESF. Ainsi, les garanties apportées par les pays membres de la zone euro sont passées à 780 milliards d'euros.

Il est rappelé que le FESF a fait l'objet de deux lois votées par la Chambres des Députés. La loi du 9 juillet 2010 relative à l'octroi de la garantie de l'Etat dans le cadre de l'instrument européen de stabilisation de la zone euro a autorisé le Gouvernement luxembourgeois à accorder la garantie de l'Etat pour un montant maximal de 1,15 milliard d'euros au FESF.
Ce montant a été porté à 2 milliards d'euros par le biais de la loi du 22 septembre 2011 modifiant la loi du 9 juillet 2010 relative à l'octroi de la garantie de l'Etat dans le cadre de l'instrument européen de stabilisation de la zone euro.

Ce type d'instrument n'a pas été prévu lors du lancement de l'Union monétaire. Or, dans le contexte de crise économique et de crise de la dette souveraine, il a été estimé opportun de mettre en place un fonds pour rétablir la confiance dans la monnaie unique et pour assurer la stabilité de l'Union monétaire.

Le nombre d'employés du FESF pourrait passer de 30 à 75 d'ici la fin d'année. Un déménagement dans des locaux plus vastes est d'ailleurs prévu prochainement.

A partir du 1er juillet 2013, le FESF sera remplacé par le mécanisme européen de stabilité (MES). A la différence du FESF, l'MES sera une institution européenne, de droit public.
Dans ce contexte, la Chambre des Députés est actuellement saisie de trois projets de loi :

- Le projet de loi n°6334 qui a pour objet de modifier le traité sur le fonctionnement de l'Union européenne (TFUE) en ajoutant à l'article 136 une disposition visant à permettre aux Etats membres dont la monnaie est l'euro d'instituer un dispositif permanent de soutien financier, dénommé mécanisme européen de stabilité (MES).
- Le projet de loi n°6405 qui vise à approuver le traité instituant le mécanisme européen de stabilité, signé le 2 février 2012 à Bruxelles.
- Le projet de loi n°6406 qui a pour objet de donner effet au traité instituant le mécanisme européen de stabilité (MES), en précisant le montant de la participation du Luxembourg au capital du MES. Ce dernier projet de loi a fait l'objet d'une série d'amendements gouvernementaux, déposés en date du 14 mai 2012.

Echange de vues

De l'échange de vues subséquent il y a lieu de retenir les éléments suivants :

- Il existe une collaboration étroite entre le FESF et la BEI sans qu'il n'y ait une participation directe de la BEI dans le FESF. La BEI n'est pas actionnaire du FESF et elle ne participera pas non plus aux opérations de sauvetage.
- La mise en place des prêts par le FESF représente un certain risque pour les pays participants. Toutefois l'octroi de financements est soumis à une décision unanime

des Ministres des Finances des Etats membres de la zone euro. De plus le fonds n'agit qu'une fois qu'un programme d'assainissement budgétaire n'a été négocié entre l'Etat demandeur et la Troïka.

- La politique budgétaire des pays secourus étant fixée par la Troïka, l'EFSF n'exerce pas d'influence ou de contrôle supplémentaire à ce niveau.

Par ailleurs, les sujets suivants ont été abordés :

- le pouvoir des agences de rating et les possibles pistes de réflexion pour une réforme ;
- le pouvoir des marchés financiers, et les implications pour la politique ;
- l'opportunité de réguler davantage les marchés financiers ;
- la situation politique et financière de la Grèce ;
- les problèmes de financement public que connaissent certains pays ;
- l'implication des parlements nationaux dans les décisions prises au niveau du FESF ;
- la souveraineté budgétaire des parlements nationaux.

Pour de plus amples détails sur le fonctionnement et les activités du FESF, il est prié de se référer à la présentation annexée.

Luxembourg, le 21 mai 2012

La secrétaire,
Carole Closener

Le Vice-Président,
Roger Negri

Annexe : Présentation « EFSF »

European Financial Stability Facility

European Financial Stability Facility

16 May 2012

The European Financial Stability Facility
– and from July the European Stability Mechanism –
are part of a package of various measures
to restore credibility and safeguard stability
in the European Monetary Union

Europe’s policy response to the crisis

1) At the national level

- Member States are making progress on fiscal consolidation and structural reforms

2) At the European level

- Europe improves economic governance
- EU reinforces financial market supervision
- “Europe 2020”

3) Emergency financing

- ECB has taken significant non-standard measures
- Europe has set up financial backstops

European Financial Stability Facility

Decisive action on the euro area periphery

- Ireland is a success story
  - Financial support linked to strict conditionality
  - Ireland regained competitiveness – current account balance back in surplus
  - Yields of Irish debt more than halved

- Portugal is on track
  - Fiscal adjustment
  - More flexibility in labour market
  - Competitiveness improving

- Italy starts far reaching austerity and reform programme
  - Pension reform
  - Major drive to tackle tax evasion
  - Balanced budget in 2013/14
  - Liberalisation of economic activity

- Spain committed to comprehensive adjustment
  - Budget deficit target 3% of GDP in 2013
  - Improving health of banking sector
  - Labour market reforms
  - Current account deficit has decreased significantly

European Financial Stability Facility

EFSF

Greece – a unique case

- **Greece does not have a liquidity problem, but a solvency problem**
- Following established IMF policies involvement of private sector (PSI):
  - Reduction of Greek debt by €107 billion
  - Voluntary bond exchange with a nominal discount of 53.5%
  - Reduction of Greek debt to 120% of GDP by 2020 - currently close to 170%
  - Official sector provides financing of €129 billion until 2014 (second Greek programme)
  - Adjustment programme will cover recapitalisation of Greek banks – up to €48 billion
- **Eurozone Member States will continue to support Greece … as long as Greece continues to implement agreed conditionality**

Action at the European level

- Strengthening the Stability and Growth Pact
- Treaty on Stability, Coordination and Governance in the EMU
  - Automatic sanctions to correct excessive deficits
  - Member States to introduce national debt brakes
- European Semester to avoid negative spill-over
- New procedure to tackle excessive imbalances within euro zone (EIP)
  - Focus on competitiveness
- More power for Eurostat
- New supervisory architecture
  - European Systemic Risk Board to identify macro-prudential risks
  - Three new European authorities to supervise banks, insurance and securities markets

There is also a growth leg to the policy response: “Europe 2020”

Restoring normal lending to economy

- Strengthening banks’ capital positions
- Controlled “deleveraging”

Completing the Single Market

- Simplification of accounting requirements
- Stronger coordination of tax policies

Strengthening innovation

- 3% of EU’s GDP invested in R&D

Cutting red tape

- Modernising public administration

More EIB-lending?

European Financial Stability Facility

Euro-area crisis resolution mechanisms

	Size\Capacity	Funding	Instrument
Greek Loan Facility	€80 bn loans, disbursed €52.9 bn	Bilateral loans pooled via EU	Programme loans
EFSF	€440 bn guarantees, effective lending capacity: €250 bn	EFSF bond issuance	
New EFSF	€780 bn guarantees, effective lending capacity: €440 bn	EFSF bond issuance	- Programme loans - Precautionary facilities - Recapitalisation of financial institutions - Primary and secondary market bond purchases
ESM	€700 bn subscribed capital, effective lending capacity: €500 bn	ESM bond issuance	

European Financial Stability Facility

Firewalls are substantial

	Commitments from Europe
■ First Greek support package	€53 bn
■ Adjustment programmes for Ireland and Portugal	€97 bn
■ Second Greek support package including PSI	€144 bn
■ ESM	€500 bn
■ Europe will provide additional resources to IMF	€182 bn
■ ECB Securities Market Programme	€220 bn
■ **All in all: $1.5 trillion mobilised in response to the crisis**	**€1,196 bn**

In addition,

- ECB provides unlimited liquidity to banks
- EFSF/ESM will leverage resources

European Financial Stability Facility EFSF

Sufficient firepower available

	Commitments from Europe	Still available
■ First Greek support package	€53 bn	✓
■ Adjustment programmes for Ireland and Portugal	€97 bn	**€50 bn**
■ Second Greek support package including PSI	€144 bn	**€75 bn**
■ ESM	€500 bn	**€500 bn**
■ Europe will provide additional resources to IMF	€182 bn	**€182 bn**
■ ECB Securities Market Programme	€220 bn	✓
■ **More than $1 trillion available for disbursement**	€1,196 bn	**€807 bn**

In addition,

- ECB provides unlimited liquidity to banks
- EFSF/ESM can leverage resources

European Financial Stability Facility
EFSF

EFSF: mission and scope of activity

Mission : to safeguard financial stability in Europe by providing financial assistance to euro area Member States

Scope of activity, linked to appropriate conditionality

- Provide loans to euro area Member States in financial difficulties
- Intervene in the debt primary market
- Intervene in the secondary bond markets
- Act on the basis of a precautionary programme
- Finance recapitalisation of financial institutions through loans to governments including in non programme countries

To fulfil its mission, EFSF issues bonds or other debt instruments on the capital markets

EFSF: a lean organisation

Founded 7 June 2010 with Tenure of 3 years - up to June 2013

Based in Luxembourg ("société anonyme" under Luxembourgish law)

Shareholders
Euro Area Member States

Board of Directors*

European Financial Stability Facility

CEO Klaus Regling + about 25 staff covering:

Operations:
- Funding strategy
- Lending
- Risk management

Research
Legal
Communication
Corporate governance,
Audit, accounting & admin

Federal Republic of Germany
Finance Agency GmbH

Finanzagentur (German DMO)

Front/Back office
debt issuance
cash management
risk management

European Investment Bank

European Investment Bank

Accounting
Documentation
Infrastructure (Facility)

ECB

(agent for primary & secondary bond market purchases)

European Financial Stability Facility
EFSF

EFSF: high quality credit rating

	Long term	Short term
STANDARD & POOR'S	AA+	A-1+
Moody's	Aaa Stable	P-1
Fitch Ratings	AAA Stable	F1+

The high credit ratings reflect:

- Strong shareholder support
- Credit enhancement
- An organisation supported by the best expertise
- Conservative strategy of funding and investment

EFSF bonds are eligible as ECB collateral

EFSF shareholder contribution

Member States	Credit rating (S&P/Moodys/Fitch)	New EFSF maximum guarantee Commitments (€m)	New EFSF contribution key (%)	New EFSF maximum guarantee commitments (PT, GR, IE stepped out)	New EFSF contribution key in % (PT, GR, IE stepped out)
Austria	**(AA+/Aaa/AAA)**	**21,639.19**	**2.78**	**21,639.19**	**2.99**
Belgium	(AA/Aa3/AA)	27,031.99	3.47	27,031.99	3.72
Cyprus	(BB+/Ba1/BBB-)	1,525.68	0.20	1,525.68	0.21
Estonia	(AA-/A1/A+)	1,994.86	0.26	1,994.86	0.27
Finland	**(AAA/Aaa/AAA)**	**13,974.03**	**1.79**	**13,974.03**	**1.92**
France	**(AA+/Aaa/AAA)**	**158,487.53**	**20.31**	**158,487.53**	**21.83**
Germany	**(AAA/Aaa/AAA**	**211,045.90**	**27.06**	**211,045.90**	**29.07**
Greece	(CCC/C/B-)	21,897.74	2.81	0.00	0.00
Ireland	(BBB+/Ba1/BBB+)	12,378.15	1.59	0.00	0.00
Italy	(BBB+/A3/A-)	139,267.81	17.86	139,267.81	19.18
Luxembourg	**(AAA/Aaa/AAA)**	**1,946.94**	**0.25**	**1,946.94**	**0.27**
Malta	(A-/A3/A+)	704.33	0.09	704.33	0.10
Netherlands	**(AAA/Aaa/AAA)**	**44,446.32**	**5.70**	**44,446.32**	**6.12**
Portugal	(BB/Ba3/BB+)	19,507.26	2.50	0.00	0.00
Slovakia	(A/A2/A+)	7,727.57	0.99	7,727.57	1.06
Slovenia	(A+/A2/A)	3,664.30	0.47	3,664.30	0.51
Spain	(BBB+/A3/A)	92,543.56	11.87	92,543.56	12.75
Total		**779,783.14**	**100**	**726,000.01**	**100**

In case a country steps out, contribution keys would be readjusted among remaining guarantors and the guarantee committee amount would decrease accordingly. Effective lending capacity is €440 billion which corresponds to the guarantee commitments of triple A member states.

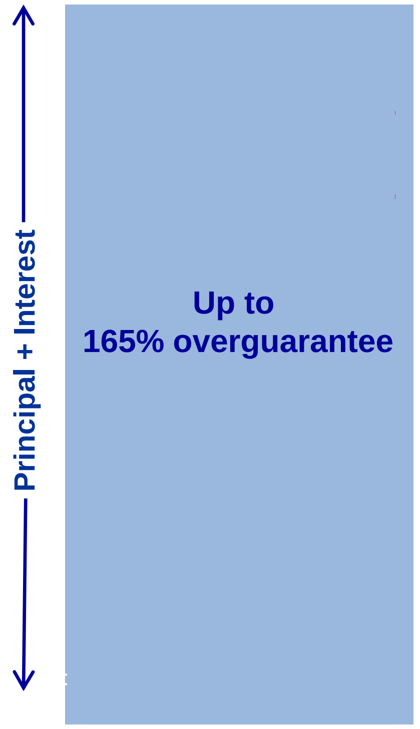
European Financial Stability Facility

A solid and simple structure

- In order to allow timely processing of payments, the effective payment dates for loans are at least 14 days prior to the scheduled payment dates
- In the case of a missed payment by a borrower, EFSF would be in charge of ensuring that **each Guarantor remits its share of the shortfall** to the EFSF
- The shortfall would be covered by the:
  1. **Guarantees**
  2. **Grossing up of guarantees (up to 165% over-collateralisation)**
- If a payment is missed by a borrower, the country programme could be interrupted and subsequently reviewed and the MoU renegotiated but the **conditionality would still exist**
- All guarantors rank equally and ***pari passu*** amongst themselves

Credit enhancement of up to 165% over-guarantee to cover payments in case of any payment default from a borrower. The guarantees cover both principal and interest.

Credit enhancement structure



European Financial Stability Facility
EFSF

EFSF: loan request procedure*

Application for aid
EAMS makes **formal request** to other members

Support programme
European Commission negotiates stabilization programme – including **strong conditionality** - in cooperation with the IMF and in liaison with the ECB

Approval of loan terms
A common **Memorandum of Understanding** of loan terms is established between the EC, the IMF and beneficiary country and approved by Eurogroup and IMF Board

Loan disbursement
EFSF finalises **technical terms of loan:** term, redemption, schedule, interest rate.
On defined date, EFSF **makes loan available** to borrower

3 to 4 weeks

European Financial Stability Facility
EFSF

** Certain new instruments, such as precautionary credit lines, may have lighter procedures for swift implementation*

Financial assistance programme for Ireland

Objectives of the programme

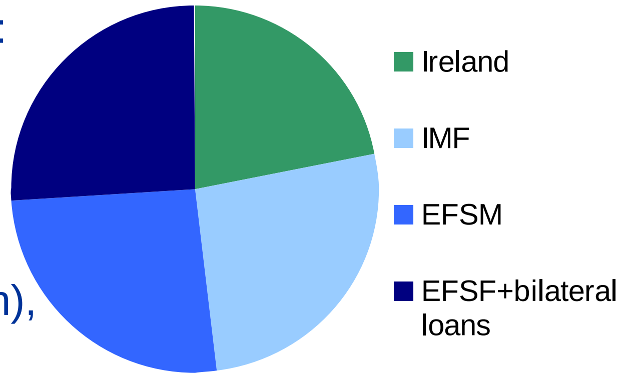
- Immediate **strengthening and comprehensive overhaul of the banking sector**
- Ambitious **fiscal adjustment** to restore fiscal sustainability, **correction of excessive deficit by 2015**
- **Growth enhancing reforms**, in particular on the labour market, to allow a return to a robust and sustainable growth

€35 billion

€50 billion

Financing

- The total **€85 billion** of the programme will be financed as follows:
  - €17.5 bn contribution from Ireland (Treasury and NPRF*)
  - €67.5 bn external support
    - €22.5bn from IMF
    - €22.5bn from EFSM
    - €17.7bn from EFSF + bilateral loans from the UK (€3.8bn), Denmark (€0.4bn) and Sweden (€0.6bn)



Disbursements will be made over 3 years with a minimum average loan maturity of 15 years

* National Pension Reserve Fund

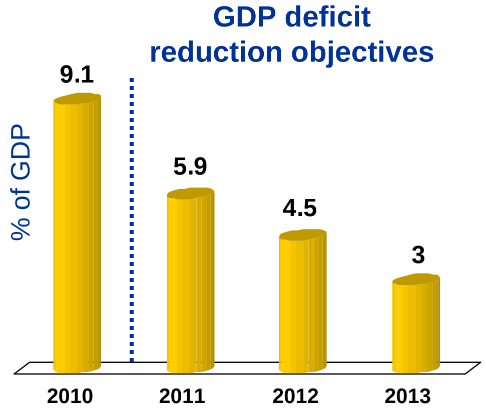
European Financial Stability Facility

EFSF

Financial assistance programme for Portugal

Objectives of the programme

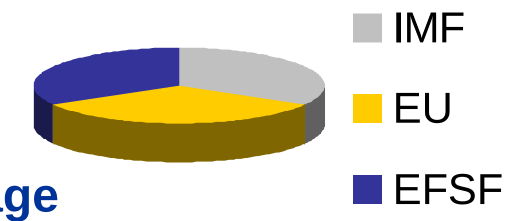
- Restore fiscal sustainability through ambitious fiscal adjustment
- Enhance growth and competitiveness via reforms and measures, i.e.
  - Freeze govt. sector wages until 2013, reduce pensions over €1500
  - Reform unemployment benefits and reduce tax deductions
  - Execute an ambitious privatisation programme (TAP, Caixa Seguros …)



- Improve liquidity and solvency of financial sector
  - Banking support scheme of up to €12 billion to provide necessary capital for banks to bring Tier 1 capital ratios to 10% by end 2012 in case market solutions cannot be found

Financing

- The total **€78 billion** of the programme will be financed as follows:
  - €26 billion from IMF
  - €26 billion from the EU (EFSM)
  - €26 billion from EFSF



Disbursements will be made over 3 years with an minimum average loan maturity of 15 years

European Financial Stability Facility
EFSF

Second financial assistance package for Greece

Following the successful completion of the Private Sector Involvement offer by the Greek government, the second assistance package for Greece has been approved. EFSF has made a substantial contribution to the Greek programme but

- did not have to raise huge amounts in the markets
- did not have to raise the whole amount of funding immediately

PSI Sweetener (€29.7 bn)
Objective: enable Greece to finance the debt exchange.
As part of the debt exchange, bond holders received 1 to 2 year EFSF bonds with a face amount equal to 15% of the face amount of the exchanged bonds.

Eurosystem Collateral enhancement (€35bn)
Objective: provide the Eurosystem with collateral enhancement due to Greece's «selective default» rating
To back Greek sovereign bonds provided to the Eurosystem as collateral,Greece provided the Eurosystem with 1 year EFSF bonds. A cashless operation, the EFSF bonds will be returned following the «selective default» period

Accrued Interest (€4.8 bn)
Objective: enable Greece to pay the accrued interest under Outstanding Greek bonds including in the PSI.
Investors have received EFSF 6-month bills to cover interest due under outstanding bonds

Bank recapitalization (up to €25 billion*)
Objective: preserve the financial stability of the Greek banking system
EFSF can disburse funds to the Hellenic Financial Stability Fund (HFSF) in order to Recapitalise the Greek banking sector

* €25 billion is the initial amount provided through transfer of EFSF bonds. Total amount could be up to €48 billion, if needed.

EFSF will contribute to the second Greek programme for a total amount of up to **€109.1 billion** until the end of 2014

European Financial Stability Facility
EFSF

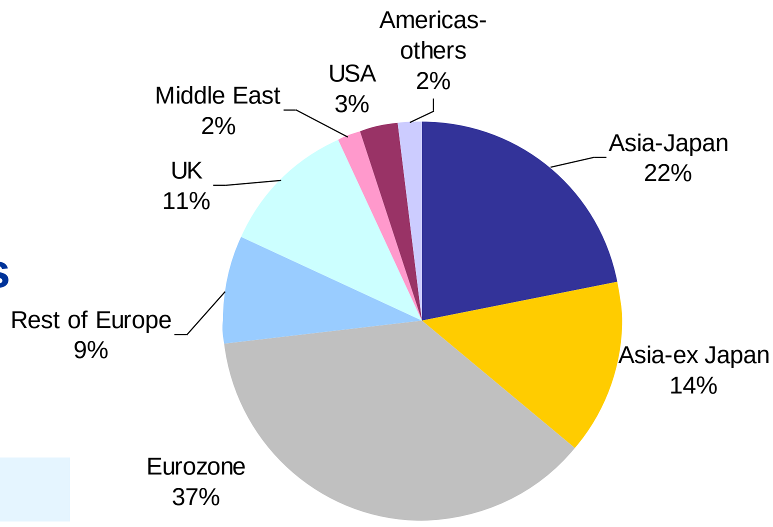
EFSF inaugural issue : record breaking investor demand

On **25 January 2011**, EFSF placed its inaugural issue in support of Ireland.

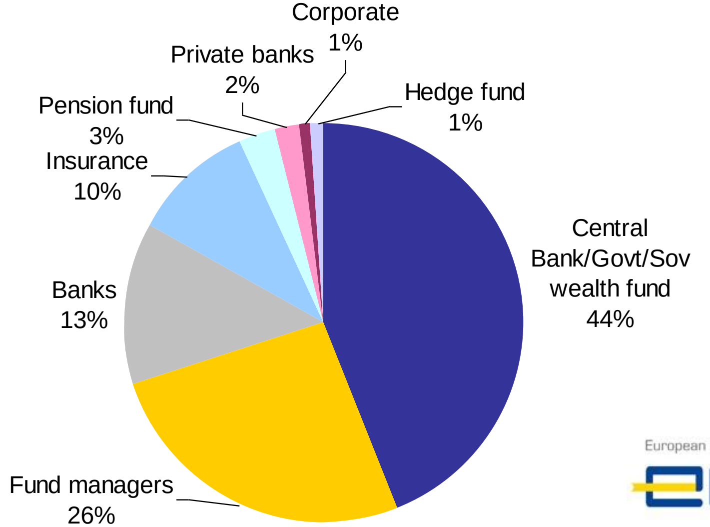
- Record breaking order book of **€44.5 bn**
- Orders received from over **500 investors**

Amount placed	€5 billion
Maturity	18/07/2016
Coupon	2.75%
Initial pricing	Mid swap +6bp
Reoffer yield	2.892%
Reoffer price	99.302%
Settlement date	1 February 2011
Lead managers	Citi, HSBC, Société Générale
Effective lending cost	5.9%
Amount transferred to Ireland	€3.6 billion

Geographical breakdown



Breakdown by investor type



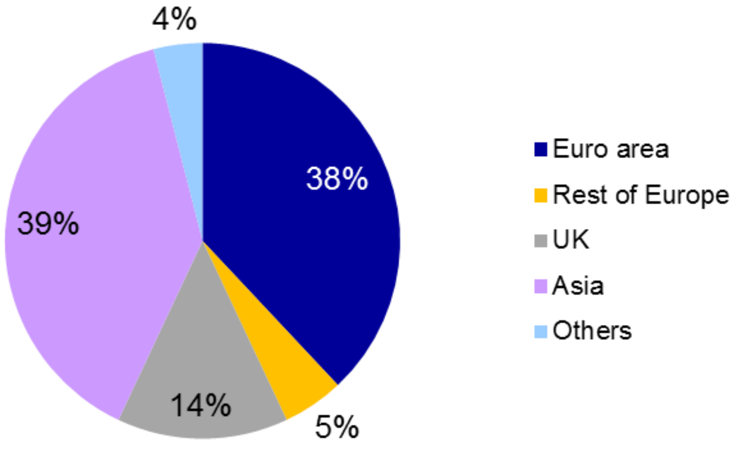
European Financial Stability Facility EFSF

EFSF issue no 8

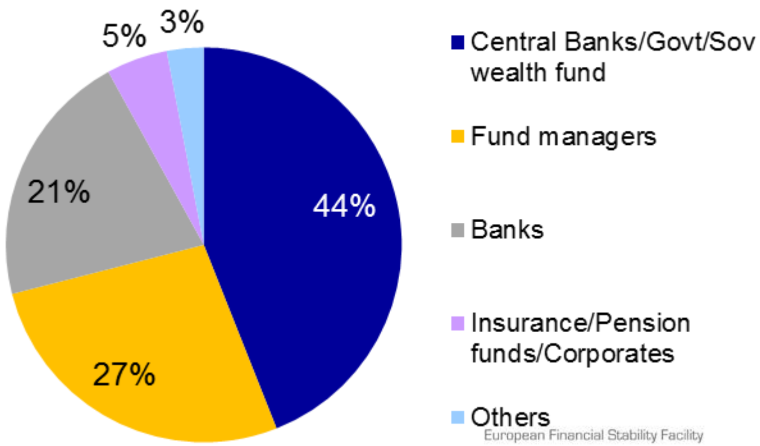
On **24 April 2012**, despite a negative market backdrop, EFSF successfully placed its first 7-year bond

Amount placed	€3 billion
Maturity	02 May 2019
Coupon	2.625%
Initial pricing	Mid swap + 77 bp
Reoffer yield	2.654%
Reoffer price	99.817%
Settlement date	2 May 2012
Lead managers	HSBC, Morgan Stanley, Natixis

Geographical breakdown



Breakdown by investor type



European Financial Stability Facility
EFSF

Short-term funding programme

First bill auction – 13 December 2011

Tenor	3 month (91 days)
Maturity	15/03/2012
Volume	€1.971 billion
Currency	Euro
Weighted average yield	0.2222%
Average Price	99.94386%
Bid/Cover ratio	3.2

Sixth bill auction – 20 March 2012

Tenor	6 month (182 days)
Maturity	20/09/2012
Volume	€1.939 billion
Currency	Euro
Weighted average yield	0.204%
Average Price	99.89697%
Bid/Cover ratio	2.7

- Auction carried out by Finanzagentur using the Deutsche Bundesbank EFSF bidding system 'EBS'
- Bill auctions are expected to be held throughout 2012

European Financial Stability Facility
EFSF

Primary market purchases (PMP)

Objective: maintain or restore a Member State’s relationship with the dealer/investment community and reduce the risk of a failed auction

Circumstances

- Countries under a macro-economic adjustment programme or to drawdown of funds under a precautionary programme.
- Primarily used towards the end of an adjustment programme to facilitate a country’s return to the markets

Conditions: Those of macro-economic adjustment programme or the precautionary programme as stated in relevant MoU

Limit: No more than 50% of the final issued amount

Once purchased: EFSF could

- Resell to private investors once market conditions have improved
- Hold until maturity
- Sell back to country
- Use for repos with commercial banks to support EFSF’s liquidity management

Secondary Market Purchases (SMP)

Objective: support the functioning of the debt markets and appropriate price formation in government bonds

- market making to ensure some liquidity in debt markets
- give incentives to investors to further participate in the financing of countries

Conditions:

- Programme countries: conditionality of the programme applies as in MoU
- Non-programme countries: conditionality refers to
  - ex-ante eligibility criteria as defined in the context of the European fiscal and macro-economic surveillance framework
  - appropriate policy reforms as in MoU

Procedure:

- Initiated by a request from a Member State to Eurogroup
- Exceptionally, ECB could issue an early warning.
- In all cases, subject to an ECB report identifying risk to euro area and assessing need for intervention.

Precautionary programme

Objective: prevent crisis situations by assistance before Member States face difficulties raising funds in the capital markets and avoid negative connotation of being a programme country

- **Precautionary conditioned credit line (PCCL)**
  - access limited to countries with sound economic and financial situation,
  - Clear track record of access to capital markets, respect of SGP* and EIP* commitments
- **Enhanced conditions credit line (ECCL)**
  - access open to countries with moderate vulnerabilities that preclude access to PCCL
- **Enhanced conditions credit line with sovereign partial risk protection (ECCL+)**
  - An ECCL provided in the form of sovereign partial risk protection (Partial Protection Certificate)

Conditions:

- Beneficiary placed under enhanced surveillance during its availability period
- All conditions stated in MoU

Size: Typical size 2-10% of GDP of beneficiary country.

Duration: 1 year renewable for 6 months twice

Procedure: lighter request procedure for swift implementation

European Financial Stability Facility

*SGP: Stability and Growth Pact, EIP: Excessive Imbalances Procedure

Finance recapitalisation of financial institutions

Objective: limit contagion of financial stress by assisting a country to finance recapitalisation of financial institution(s) at sustainable borrowing costs (particularly to countries where the financial sector is disproportionally large).

Circumstances: Countries that are not under a macro-economic adjustment programme*. Any loans must be requested and disbursed to Member States. EFSF will not loan directly to financial institutions

In order to determine eligibility for an EFSF loan, a three step approach is applied:

1. **Private sector (shareholders)**
2. **National level (government)**
3. **European level (EFSF)**

Conditions:

- Restructuring/resolution of financial institutions
- Compliance with European state aid rules
- Additional conditionality on financial supervision, corporate governance and domestic laws on restructuring/resolution.
- All conditions stated in MoU

* Those countries under a programme, an amount has already been designated within the programme for the recapitalisation of the financial sector (ie €12 billion for Portugal, €35 billion for Ireland)

Optimising EFSF's firepower

On 29 November, euro area Finance Ministers agreed to increase EFSF's firepower by optimising its lending capacity within the existing Framework Agreement and without extending the amount of guarantees by Member States whilst also preserving EFSF high credit rating.

Two options are available:

1. **Partial risk protection** – EFSF provides partial protection certificate to a sovereign bond issued by a Member State. After issue, certificate could be detached and freely traded separately. Holder received fixed credit protection of 20-30% of principal. To be used primarily under precautionary programmes
2. **Creation of a Co-Investment Fund (CIF)** – Combine public and private capital. CIF buys bonds in primary and/or secondary markets. It could be funding through the following classes of instrument:
   - Senior debt instrument : credit rated and targeted at traditional fixed income investors
   - Participation capital instrument : Junior to senior debt instrument, aimed at sovereign wealth funds, risk capital investors, would participate in upside generated
   - EFSF investment: absorbs first proportion on any losses incurred

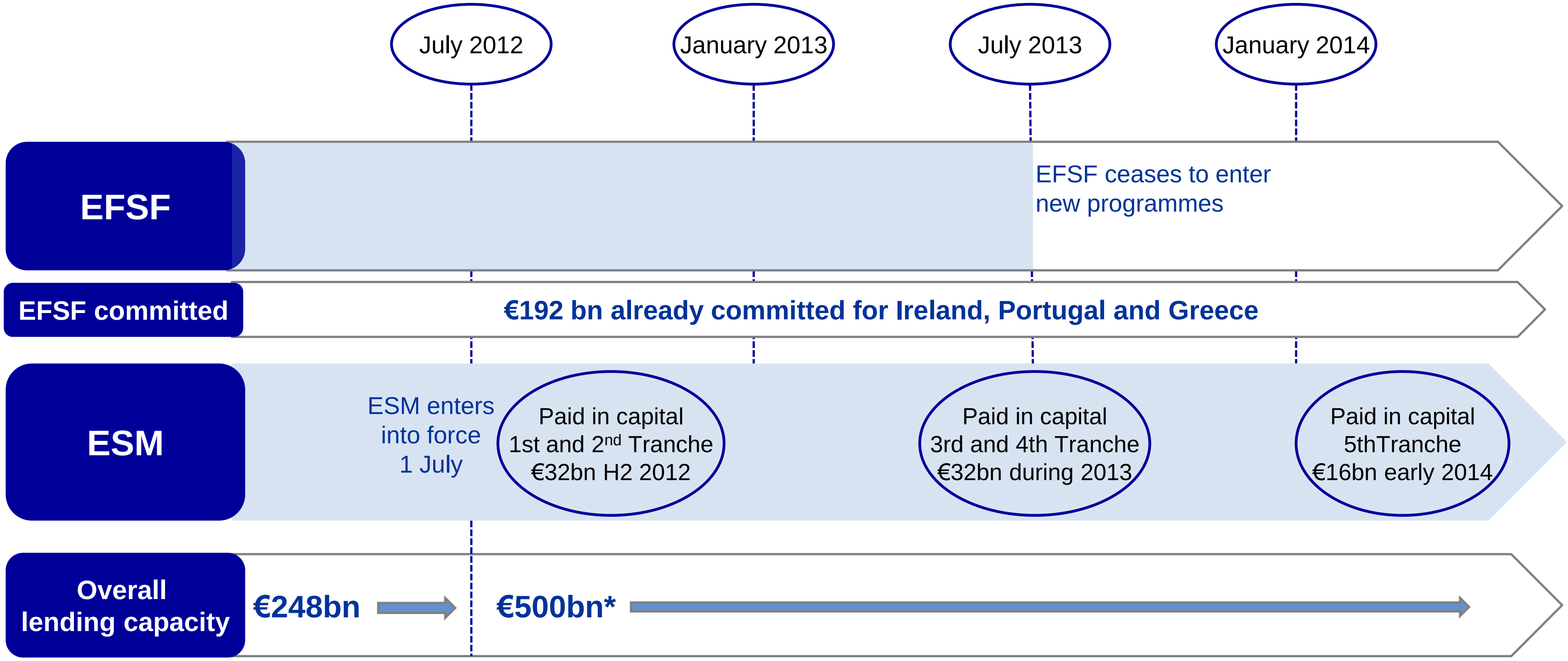
EFSF would benefit from the flexibility to deploy both options which are not mutually exclusive

Going forward: creation of a permanent crisis mechanism

The creation of the **European Stability Mechanism (ESM)**

- an **intergovernmental organisation** under public international law, operational from mid-2012
- ESM will take over **all the features** of the amended EFSF
- **effective lending capacity of €500 billion**
- **total subscribed capital of €700 billion**, with paid-in capital (€80 billion) and committed callable capital (€620 billion)
- Following established IMF policies regarding private sector involvement
  - ESM will claim preferred creditor status (except for countries under a European financial assistance programme at signing of treaty)
  - Standardized and Collective Action Clauses (CACs) will be included for all new euro area government bonds from January 2013

The way forward



*From July 2012 - July 2013 EFSF may engage in new programmes in order to ensure a full fresh lending capacity of €500 billion. €500 bn lending capacity can also be reached through accelerated capital payments, if needed.

European Financial Stability Facility

EFSF Commitments and lending capacity

EFSF commitments for Ireland, Portugal and Greece	
Ireland	€17.7 bn
Portugal	€26.0 bn
Greece	Up to €144.6 bn - Up to €35.5 bn (PSI + Acc. Int.) - Up to €109.1 bn (2nd programme, including up to €48 bn bank recap.)
	€188.3bn + €3.7bn (cash buffer from EFSF v1*) = €192 bn

Temporary operations
€35bn ECB collateral EFSF provided the Eurosystem with bonds as collateral following Greece's selective default period due to the PSI operation. These bonds should be returned within two months following the end of the selective default

EFSF remaining lending capacity
€440 bn - €192 bn = €248 bn

* As part of the credit enhancement structure of the initial EFSF, a cash reserve and loan-specific cash buffer was deducted from loans to Member States. Since the adoption of the amended version of the EFSF in October 2011, the cash reserve and loan-specific cash buffer are no longer required

European Financial Stability Facility
EFSF

EFSF funding programme

Preliminary EFSF funding programme
(subject to market conditions and requests by programme countries)

	Q1 2012 (completed)	Q2 2012	Q3 2012	Q4 2012	Total for 2012	2013	2014
Ireland	4.5	2.3	0	1.3	8.1	2.03	-
Portugal	2.7	7.8	1.8	1.6	13.9	3.55	1.65
Greece	7.0	10.9	5.9	8.4	32.2	32.3	32.1
Total	14.2	21.0	7.7	11.3	54.2	37.9	33.7

European Financial Stability Facility