Maximising EFSF's capacity approved

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Brussels/Luxembourg – Euro area Finance Ministers agreed on 29 November on the terms and conditions to extend EFSF's capacity by introducing sovereign bond partial risk participation and a Co-Investment approach. Ministers also adopted amended EFSF guidelines concerning intervention in the primary and secondary debt markets and precautionary credit lines in order to use leverage. Klaus Regling CEO of EFSF commented "Both options are designed to enlarge the capacity of the EFSF so that the new instruments available to the EFSF can be used efficiently".

Under the partial risk protection, EFSF would provide a partial protection certificate to a newly issued bond of a Member State. The certificate could be detached after initial issue and could be traded separately. It would give the holder an amount of fixed credit protection of 20-30% of the principal amount of the sovereign bond. The partial risk protection is to be used primarily under precautionary programmes and is aimed at increasing demand for new issues of Member States and lowering funding costs.

Under option two, the creation of one or more Co-Investment Funds (CIF) would allow the combination of public and private funding. A CIF would purchase bonds in the primary and/or secondary markets. Where the CIF would provide funding directly to Member States through the purchase of primary bonds, this funding could, inter alia, be used by Member States for bank recapitalisation. The CIF would comprise a first loss tranche which would be financed by EFSF.

Chris Frankel CFO and Deputy CEO of EFSF commented "Following extensive discussions with investors covering all types and geographical regions, a number of them have given their positive views and signalled their willingness to participate."

EFSF will now implement these two approaches to be ready early in 2012 to use them effectively in the context of the guidelines for the new instruments on market interventions.

EFSF will be able to use both leverage options simultaneously. The final amount of "firepower" achieved through the use of the options will depend upon the concrete use and mix of the instruments and particularly the exact degree of protection between 20% and 30%. EFSF has currently a lending capacity of €440 billion and firm commitments regarding Ireland and Portugal totalling €43.7 billion.

EFSF is also expected to finance a second aid programme for Greece and fulfil tasks such as financing recapitalisation of financial institutions in non-programme countries. Without knowing the exact amounts needed, EFSF should be able to leverage own resources of up to €250 billion. Deployment of either instrument using leverage will only be made following a request from a Member State. Any support from the EFSF will be linked to strict policy conditionality, monitoring and surveillance procedures.

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