Letter to Editor of Financial Times

View PDF
25/02/2011
Press releases
EFSF

Letter to Editor of Financial Times

Financial Times
Number One
Southwark Bridge
London
SE1 9HL

Sir,

Your article "Financial wizardry finds new role in post-crisis world" (February 25) notes that comparisons are made between the European Financial Stability Facility and a collateralised debt obligation. I feel compelled to explain why the EFSF should not be considered as such.

The essential difference between the EFSF and a CDO is that EFSF debt has no tranche structure. There is no seniority and all investors have exactly the same rights.

Secondly, EFSF bonds are covered by the guarantees from the euro area countries. However, a triple-A rating from all three leading credit rating agencies is not assigned lightly.
The EFSF has put into place additional credit enhancements through the use of a cash reserve and loan specific cash buffer which are immediately deducted from the loan made to a borrowing country in order to provide additional reassurance to investors. Consequently, all claims on the EFSF are 100 per cent covered by triple-A guarantors and cash.

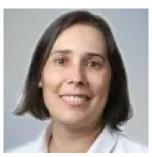
Finally, considering the success of the EFSF's first issue in January, the comparison seems even more difficult to understand. Almost half of the five-year €5bn bond was bought by central banks and sovereign wealth funds. These are investors that seek only the soundest of investments.

Yours faithfully,

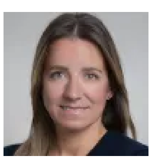
Klaus Regling,
Chief Executive,
European Financial Stability Facility,
Luxembourg

Contacts

Cédric Crelo
Head of Communications and Chief Spokesperson
+352 260 962 205
c.crelo@esm.europa.eu



Anabela Reis
Deputy Head of Communications and Deputy Chief Spokesperson
+352 260 962 551
a.reis@esm.europa.eu



Juliana Dahl
Principal Speechwriter and Principal Spokesperson
+352 260 962 654
j.dahl@esm.europa.eu