European Financial Stability Facility

EFSF

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Dear Editor,

In response to your article "Financial wizardry finds new role in post-crisis world" (Financial Times, 25/02/2011), which has compared the European Financial Stability Facility (EFSF) to a Collateralized Debt Obligation (CDO), I feel compelled to explain why it should not be considered as such.

The essential difference between 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-AAA rating from all three leading credit rating agencies is not assigned lightly. 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% covered by AAA guarantors and cash.

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

Yours faithfully,

Klaus R.

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