

Guideline on the Calculation of the Forward Commitment Capacity (FCC)

Article 1 ***Purpose and scope***

1. On the basis of Article 39 of the ESM Treaty, the Board of Directors hereby adopts detailed guidelines on the calculation of the forward commitment capacity to ensure that the consolidated lending ceiling is not breached.
2. The consolidated ESM and EFSF lending referred to in Article 39 of the ESM Treaty can be summarised by the following:

ESM LV + EFSF LV

where ESM LV is the lending volume of the ESM and EFSF LV the lending volume of the EFSF. ¹

3. As of the date of the adoption of these guidelines, the EFSF's maximum committed lending is EUR 192 billion. Moreover, since the end of June 2013, the EFSF will not enter into any new financing programme. Accordingly, it is sufficient, for the purpose of respecting the consolidated lending ceiling, to determine the ESM forward commitment capacity based only on the ESM maximum lending volume, as defined in Article 10 of the ESM Treaty.
4. This guideline outlines the definition, calculation and monitoring process of the ESM forward commitment capacity.

Article 2 ***Definition***

The Forward Commitment Capacity (FCC) shall be defined as the total amount of resources the ESM can commit during a twelve (12) month time horizon for financial assistance instruments, other than direct recapitalisation instrument (DRI) once this instrument becomes operational.

Article 3 ***Calculation of FCC***

¹ At the time of approval of these guidelines, the consolidated lending ceiling of ESM and EFSF is EUR 700 billion, of which the maximum ESM lending capacity is EUR 500 billion. The consolidated ESM and EFSF lending capacity, set initially in Article 39 of the ESM Treaty at EUR 500 billion, was increased to EUR 700 billion through the Board of Governors Resolution Nr. 11, adopted in the meeting held on 8 October 2012 referring to the Statement of the Eurogroup of 30 March 2012. The Board of Governors reviews regularly and at least every five years, the ESM maximum lending volume.



1. The maximum amount of resources available to the ESM to provide financial assistance is calculated after taking into account the operations linked to the DRI (nominal outstanding direct investment disbursed and direct investment committed but undisbursed) and the effect of such operations on the ESM maximum available lending. In case the ESM grants financial assistance through this instrument, its maximum available lending will be adjusted, by taking into account the impact of such recapitalisation on the resources available for non-DRI operations¹ with a view to safeguard the strong creditworthiness of the ESM.

The precise adjustment amount will not be fixed in advance, as it may vary over time. Key elements influencing the adjustment amount will be the relevant rating methodologies of the credit rating agencies and ESM track record of asset composition, including loan exposure and equity exposure.

In this first step the following formula is used to compute the maximum available lending:

$$\text{MAL} = \text{MLV} - \text{X} - \text{FI}$$

where :

MAL = Maximum available lending

MLV = ESM maximum lending volume

X = Adjusted amount

FI = Nominal outstanding direct investment disbursed and direct investment committed but undisbursed

2. In the second step, the FCC is calculated by adjusting the maximum available lending for the expected cash in-flows of outstanding amounts of the relevant operations over the next twelve (12) months as given below.
3. First, if a purchase agreement to sell a bank equity investment over the next twelve (12) months has been agreed and signed, the initially invested amount will be added to the maximum available lending volume. The implication of this purchase agreement on the adjustment amount X will be also considered.
4. Second, on the lending side, the outstanding amounts disbursed for non-DRI financial assistance, the amounts of undrawn committed non-DRI assistance during the disbursement period, and the amounts committed under precautionary financial assistance instruments need to be deducted from the maximum available lending volume.
5. Finally, the projected repayment amounts (amortisation) to be made by the sovereign borrowers to the ESM over the next twelve (12) months will be added.
6. On the basis of the above, the FCC is calculated as follows:

¹ Non-DRI operations refer to ESM loans, precautionary financial assistance, financial assistance for the recapitalisation of financial institution (indirect bank recapitalisation), primary market support facility, secondary market support facility.

FCC	= MAL + RI – FL + RL , where
FCC	= Forward Commitment Capacity
MAL	= Maximum available lending
RI	= Sales (repayments) of bank investments over the next twelve (12) months
FL	= Outstanding amounts and committed disbursements for non-DRI financial assistance
RL	= Non-DRI financial assistance repayments over the next twelve (12) months

Article 4 ***Monitoring process of FCC***

1. The FCC shall be computed and communicated publicly by the ESM for the following twelve (12) months on a rolling monthly basis.
2. The FCC and, in particular, the adjustment amount to the lending capacity – referred to as X in the formula contained in Article 3(1) of these guidelines – shall be approved once a year by the ESM Board of Directors, based on a proposal by the ESM Managing Director.
3. Equally, when financial assistance is actually provided through the instrument for the direct recapitalisation of institutions or sizeable disposals of bank equity investments occurs, an approval of the adjusted FCC by the ESM Board of Directors, based on a proposal by the ESM Managing Director, shall also be required.
4. Approval of the FCC by the ESM Board of Directors, based on a proposal by the ESM Managing Director, shall also be required in conjunction with the approval of any non-DRI Financial Assistance Facility Agreement (FFA).