European Financial Stability Facility (EFSF)

Section A – EFSF general questions

➢ A1 - What is the EFSF?

The European Financial Stability Facility (EFSF) is a company which was agreed by the countries that share the euro on May 9th 2010 and incorporated in Luxembourg under Luxembourgish law on June 7th 2010[1]. The EFSF's objective is to preserve financial stability of Europe's monetary union by providing temporary financial assistance to euro area Member States if needed.

On June 24, the Head of Government and State agreed to increase EFSF's scope of activity and increase its guarantee commitments from €440 billion to €780 billion which corresponds to a lending capacity of €440 billion and on July 21, the Heads of Government and State agreed to further increase EFSF's scope of activity[2]

Following the conclusion of all necessary national procedures, these amendments to the EFSF Framework came into force on 18th October 2011[3].

➢ A2 - What is the EFSF's scope of activity?

In order to fulfil its mission, the EFSF is authorised to:

- issue bonds or other debt instruments on the market to raise the funds needed to provide loans to countries in financial difficulties.

[1] See http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/misc/114977.pdf
[2] See http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/123979.pdf
[3] For further information on the original EFSF before the amendments came into force, please see Annex 1.

- intervene in the debt primary market
- intervene in the debt secondary markets
- act on the basis of a precautionary programme
- finance recapitalisations of financial institutions through loans to governments including in non-programme countries

All financial assistance to Member States is linked to appropriate conditionality.

➢ A3 – How are EFSF issues backed?

EFSF issues are backed by guarantees given by the 17 euro area Member States for up to €780 billion in accordance with their share in the paid-up capital of the European Central Bank (see table below)

	New EFSF Guarantee Committments (€m)	New EFSF contribution key (%)	EFSF Amended Guarantee Committments* (€m)	EFSF amended contribution key* (%)
Austria	21,639	2.78	21,639	2.99
Belgium	27,032	3.47	27,032	3.72
Cyprus	1,526	0.20	1,526	0.21
Estonia	1,995	0.26	1,995	0.27
Finland	13,974	1.79	13,974	1.92
France	158,488	20.31	158,488	21.83
Germany	211,046	27.06	211,046	29.07
Greece	21,898	2.81	-	0.00
Ireland	12,378	1.59	-	0.00
Italy	139,268	17.86	139,268	19.18
Luxembourg	1,947	0.25	1,947	0.27
Malta	704	0.09	704	0.10
Netherlands	44,446	5.70	44,446	6.12
Portugal	19,507	2.50	-	0.00
Slovakia	7,728	0.99	7,728	1.06
Slovenia	3,664	0.47	3,664	0.51
Spain	92,544	11.87	92,544	12.75
Total	**779,783**	**100**	**726,000**	**100**

As of 18 October 2011

* The amended contribution key takes into account the stepping out of Greece, Ireland and Portugal.

➢ A4 - Where is the EFSF headquartered?

The EFSF is located at 43 Avenue John F. Kennedy, L-1855 Luxembourg.

➢ A5 – How big is the EFSF?

The EFSF is a very lean organisation. It has staff of around 60 people. The lean structure is possible because the German DMO (front and back office) and the European Investment Bank provide support to the EFSF. Additionally, the European Commission ensures consistency between EFSF operations and other assistance to euro area Member States.

➢ A6 - Who manages the EFSF?

The Chief Executive Officer is Klaus Regling, a former Director General of the European

Commission's Directorate General for Economic and Financial Affairs who also worked at the International Monetary Fund (IMF) and the German Ministry of Finance and has professional experience of working in financial markets.

- ### A7 - Who oversees the EFSF?

The board of the EFSF comprises high level representatives of the 17 euro area Member States i.e. Deputy Ministers or Secretaries of State or director generals of national treasuries. The European Commission and the European Central Bank (ECB) each have observers on the EFSF board. The EFSF board is headed by the Chairman of the EU's Economic and Financial Committee.

- ### A8 - Does the European Parliament have an oversight role?

Although there is no specific statutory requirement for accountability to the European Parliament, EFSF has a close relationship with the relevant committees.

- ### A9 - Is the EFSF a stand-alone solution to support euro area countries?

The European Financial Stability Facility is part of a wider safety net to preserve financial stability within Europe. The means of the EFSF are combined with loans of up to € 60 billion coming from the European Financial Stabilisation Mechanism (EFSM), i.e. funds raised by the European Commission and guaranteed by the EU budget, and up to € 250 billion from the International Monetary Fund for a financial safety net up to € 750 billion.

- ### A10 - Is the EFSF a preferred creditor?

No. Unlike the IMF the EFSF has the same standing as any other sovereign claim on the country (pari passu). Private investors would be reluctant to provide loans to the country concerned if there were too many preferred creditors.

- ### A11 - Are EFSF bonds eligible for ECB repo facilities?

EFSF debt instruments are eligible as collateral in European Central Bank refinancing operations[4].

EFSF as an "Agency – non-credit institution" falls under liquidity category II of the Eurosystem collateral approach. Talks with other Central Banks and regulators (inter alia FSA, SEC) for EFSF eligibility and classification are ongoing.

- ### A12 - What rating does the EFSF have?

EFSF has been assigned the best possible credit rating[5] by Fitch Ratings (AAA). EFSF has been assigned a 'AA+ ' rating by Standard & Poor's and a Aa1 rating by Moody's.

EFSF has also been assigned the highest possible short term rating from the credit rating agencies – Standard and Poor's 'A-1+'; Moody's (P) P-1 and Fitch Ratings 'F1+'.

- ### A13 - Would the EFSF default if one of its borrower countries defaulted?

The guarantee mechanism under the Framework Agreement is designed to exclude such a situation. If a country were to default on its payments, guarantees would be called in from the guarantors. The shortfall would be covered by the:

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[4] The ECB List of eligible marketable assets can be consulted using the following link:
http://www.ecb.europa.eu/mopo/assets/assets/html/index.en.html
https://mfi-assets.ecb.int/query_EA.htm

[5] See http://www.efsf.europa.eu/investor_relations/rating/index.htm

- Guarantees
- Grossing up of guarantees (up to 165% over-collateralisation)

If a guarantor did not respect its obligations, guarantees from others could be called in to cover the shortfall. All guarantors rank equally and pari passu amongst themselves.

> A14 – Are the guarantees provided by euro area Member States unlimited?

No guarantor is required to issue guarantees which would result in it having a guarantee exposure in excess of its aggregate guarantee commitment, as stated in the EFSF Framework Agreement.

> A15 – Do the guarantees vary between series of bonds?

Guarantees would vary between bonds that were issued under the original EFSF and bonds that will be issued under the amended EFSF due to the change in the credit enhancement structure of the amended EFSF.

Furthermore, the composition of the list of guarantors and their respective Guarantee Contribution Key % may vary between different bonds by reason either of a Guarantor becoming a Stepping-Out Guarantor or the adherence of a new euro area Member State to EFSF. Such adjustments do not change the composition of the list of Guarantors or their Guarantee Contribution Key % for Notes already issued but only for the bonds issued after the relevant event.

> A16 - Can countries step down from a guarantee already made?

No – guarantees are “irrevocable and unconditional”

> A17 - Will the EFSF bail out banks?

EFSF is authorised to provide loans to Member States which then use the funds to recapitalise their financial institutions.
This may occur within a macro-economic adjustment programme as was the case for Ireland when it was agreed that Ireland would use funds to stabilise the banking sector. €35 billion out of the total €85 billion of the Irish programme has been allocated to the banking sector.

Following the agreement of the Heads of Government and State on 21 July, EFSF may provide assistance to a Member State which is not within a programme to enable it to recapitalise financial institutions.

> A18 - Will EFSF be a permanent institution?

The EFSF has been created as a temporary institution. In accordance with its Articles of Association, the EFSF will be liquidated on the earliest date after 30 June 2013 on which there are no longer loans outstanding to a euro-area Member State and all Funding Instruments issued by EFSF and any reimbursement amounts due to Guarantors have been repaid in full.

This means that after June 2013, EFSF would not enter into any new programmes but will continue the management and repayment of any outstanding debt and will close down once all outstanding debt has been repaid.

On 24 June 2011, EU Heads of State and Government confirmed to establish a new permanent crisis mechanism, the European Stability Mechanism (ESM) (see Section K).

Section B – Funding

> B1 - Does the EFSF do its own funding?

Issues may be made via syndications (such as the first three issues) but may also be made by auctions, private placements, new lines and tap issues.

Up until now, the German Debt Management Office (Bundesrepublik Deutschland – Finanzagentur GmbH) has acted as Issuance Agent and has been responsible for the placement. However, EFSF is the issuer. The funding strategy should be described as SSA (Sovereign, Supranational, Agency) type through benchmark issuance, with focus on a high standard of liquidity.

The issuance calendar including the most suitable funding instruments will be defined with the country on a case-by-case basis.

Due to the change of the guarantors and guarantee amounts following the amendments of the EFSF Framework Agreement, it is no longer possible to tap the three issues placed (25 January, 15 and 22 June) before the amendments entered into force.

B2 – What is the EFSF's funding strategy?

Initially the EFSF used a simple back-to-back funding strategy. In November 2011, a diversified funding strategy was adopted using a liquidity buffer as a key component. As part of this strategy, EFSF has introduced a short term bill programme and since the end of last year, we have held regular auctions of 3-month and 6-month bills, all of which have met with strong demand from the investor community.

One consequence of our diversified strategy is that funds raised are no longer attributed to a particular country. The funds are pooled and then disbursed to programme countries.

B3 – Which banks have been appointed as lead managers?

The lead managers are mandated from the 46 international institutions that make up the EFSF Market Group[6]. The lead managers are chosen following a rigorous and transparent selection process.

B4– Who are the main investors in EFSF bonds?

Investors in EFSF bonds are predominantly institutional investors such as banks, pension funds, central banks, sovereign wealth funds, asset managers, insurance companies and private banks. The investor base is varied geographically with interest from around the world.
Detailed information showing geographical breakdown and breakdown by investor type for each issue is available on the EFSF website
(please see http://www.efsf.europa.eu/investor_relations/issues/index.htm).

B5 - Can EFSF and EFSM[7] be in the market at the same time?

As the Irish and the Portuguese programmes show, the issuance calendar is closely coordinated between EFSF and EFSM. This ensures smooth market operations over the entire duration of the support programmes while both mechanisms are in the market.

B6 – Does EFSF issue in euro only?

EFSF does not have any general currency limitation for its funding activities. However, it is currently expected that the funds would be raised in euro.

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[6] See http://www.efsf.europa.eu/attachments/efsf_market_group_en.pdf

[7] See http://ec.europa.eu/economy_finance/eu_borrower/efsm/index_en.htm

- B7 – Are EFSF bonds listed on the stock exchange?

Yes, they are listed on the Luxembourg Stock Exchange. However, the vast majority of trading volume takes place through over-the-counter trading platforms. EFSF bills are only traded OTC.

- B8 – Is EFSF part of the main indices for SSA investors?

EFSF is included in the following indices: Barcap Euro Aggregate Index, iBoxx Euro Sub-Sovereigns, JP Maggie, Citi EuroBig Index and ML EMU Board Market Index.[8]

- B9 – Which EFSF issues can be tapped?

Issues of notes by EFSF made prior to 13 February 2012 cannot be tapped, because the guarantee structure has changed twice since EFSF started to issue notes in January 2011, and notes issued after the last set of changes to the guarantee structure in February 2012 would, therefore, not be fungible with those issued before then.

- B10 – What is the EFSF's funding strategy until the end of 2012? What is the expected level of issuance in 2013?

EFSF will continue its funding strategy which is a combination of issuance of benchmark bonds and a short term bill programme. For the remaining quarter of 2012, the EFSF is expected to raise €11 billion in long term funding and almost €8.5 billion in bills.

According to the long-term funding programme, €40.5 billion in bonds will be issued by the EFSF in 2013. An additional €12 billion will be raised through the bill programme.

Section C – questions related to lending within a macro-economic adjustment programme

- C1 - What triggers an EFSF lending programme?

The Facility can only act after a support request is made by a euro area Member State and a country programme has been negotiated with the European Commission and the IMF and after such a programme has been accepted by the euro area finance ministers and a Memorandum of Understanding (MoU) is signed. This would only occur when the country is unable to borrow on markets at acceptable rates.

- C2 - How fast can the EFSF provide financial support?

Following a request from a euro area Member State for financial assistance, it takes three to four weeks to draw up a support programme including sending experts from the Commission, the IMF and the ECB to the country in difficulty. Once euro area finance ministers have approved the country programme, the EFSF would need several working days to raise the necessary funds and disburse the loan.

- C3 - Is EFSF's support linked to conditions?

Yes, any financial assistance to a country in need is linked to strict policy conditions which are set out in a Memorandum of Understanding (MoU) between the country in need and the European Commission. For example, conditions for the Irish programme include strengthening and overhaul of the banking sector, fiscal adjustment including correction of excessive deficit by 2015 and growth enhancing reforms, in particular of the labour market. Decisions about the maximum amount of a loan, its margin and maturity, and the number of instalments to be

[8] See http://www.efsf.europa.eu/investor_relations/indices-platforms/index.htm

disbursed are taken unanimously by the euro area Member States' finance ministers.

- C4 - What happens if a country in difficulty fails to meet the conditions?

The loan disbursements and the country programme would be interrupted until the review of the country programme and the MoU is renegotiated. In such cases the conditionality still exists.

- C5 – What is EFSF's lending capacity?

Following the increase of guarantee commitments to €780 billion, EFSF's effective lending capacity is intended to be €440 billion. This is explained by the credit enhancement structure which includes an overguarantee of up to 165%

- C6 - What is the maturity of EFSF loans and bonds?

The Framework Agreement does not contain any maturity limitations for the loans nor for the funding instruments. They will be defined on a case-by-case basis. However, at the euro zone summit 21 July 2011, it was agreed that maturities would be extended from the current average of 7.5 years to a minimum average of 15 years and up to 30 years.

- C7 – How will EFSF assess what maturity it will issue and will it swap issuance?

The choice of maturity for a specific bond depends on the prevailing market conditions at the time of a planned issue. EFSF does not intend to use derivatives for the time being.

- C8 - What is the interest rate of EFSF loans?

EFSF's on-lending costs are funding costs plus operational costs.

- C9 - Do non-euro area Member States participate in EFSF support activities?

There is no binding agreement with Member States outside the euro area. However, for the Irish programme, the UK, Denmark and Sweden have pledged bilateral loans for a combined total of €4.8 billion.

- C10 - Does EFSF support countries outside the euro area?

No. For Member States outside the euro area other European Union support mechanisms exist. For Member States that are not members of the euro area there is the Balance of Payments facility[9]; for countries outside the EU there is the Macro-Financial Assistance programme[10]. Furthermore, the EFSM could support all European Union Member States.

Section D – New instruments for EFSF

Bank recapitalisations[11]

- D1 –What is the objective of EFSF's participation of recapitalisation of financial institutions?

The objective is to limit contagion of financial stress by ensuring capacity of a government (typically those with "small country, large financial sector problem") to finance recapitalisation of financial institution(s) at sustainable borrowing costs.

- D2 - Which countries could benefit from this assistance

[9] See http://ec.europa.eu/economy_finance/financial_operations/balance/index_en.htm.
[10] See http://ec.europa.eu/economy_finance/financial_operations/market/third_countries/index_en.htm.
[11] See EFSF Guideline on Recapitalisation of Financial Institutions http://www.efsf.europa.eu/attachments/efsf_guideline_on_recapitalisation_of_financial_institutions.pdf

It applies to Member States which are not under a macro-economic adjustment programme. For those under a programme, an amount has already been designated within the programme for the recapitalisation of the financial sector (€12 billion for Portugal, €35 billion for Ireland).

- D3 - Will EFSF make loans directly to financial institutions?

No, EFSF will only loan to euro area Member States.

- D4 - How is eligibility decided?

A three step approach is applied. First of all, the private sector (shareholders) will participate followed by participation on a national level (government) and then finally on a European level via the EFSF.

- D5 – Will conditions be attached?

Yes, the planned restructuring/resolution of financial institutions will be the sine qua non condition for EFSF assistance for recapitalisation. In addition, as this type of assistance is considered as state aid, it will therefore have to comply with European state aid rules. Finally, additional conditionality should also be envisaged in the domains of financial supervision, corporate governance and domestic laws relating to restructuring/resolution.

- D6 – What will be the request procedure?

The request for and control of this instrument needs to be 'lighter' than in the case of a regular macro-economic adjustment programme in order to increase the speed of funding as well as to reflect the sectorial nature of the loan. The request must be made by the government of the Member State to the chairman of the Eurogroup. This will be followed by an independent assessment provided by the Commission in liaison with the ECB, and where appropriate with the relevant European supervisory authority (EBA, ESMA, EIOPA).

Precautionary Programmes[12]

- D7 –What is the objective of EFSF's precautionary programmes?

The EFSF precautionary programme is a credit line to a non-programme country to overcome external temporary shocks and to prevent a crisis from occurring. The objective is to support sound policies and prevent crisis situations by encouraging countries to secure EFSF assistance before they face difficulties in the capital markets (and avoid negative connotation of being a programme country).

- D8 –What sort of credit lines will be available?

In line with IMF's credit lines, three types of credit line will be available:

  - Precautionary conditioned credit line (PCCL) – Access limited to a euro area Member State whose economic and financial situation is fundamentally sound, as determined by respecting eligibility criteria (sustainable public debt, respect of SGP and EIP commitments, track record of access to capital markets on reasonable terms)
  - Enhanced conditions credit line (ECCL) – Access open to all euro area Member States whose general economic and financial situation remains sound but faces moderate vulnerabilities that preclude access to a PCCL. Beneficiary must adopt,

[12] See EFSF Guideline on Precautionary programmes http://www.efsf.europa.eu/attachments/efsf_guideline_on_precautionary_programmes.pdf

after consultation with EC and ECB, corrective measures aimed at addressing weaknesses.

  - Enhanced conditions credit line with sovereign partial risk protection (ECCL+) – An ECCL can be provided in the form of sovereign partial risk protection to primary bonds. The Partial Protection Certificate (PPC) gives the holder of the certificate a fixed amount of credit protection equal to a percentage of the principal amount of the sovereign bond. Access to the ECCL+ corresponds, as a basis, to the same criteria and conditionality as that of the ECCL, while reflecting the specific circumstances requiring the issuance of a PPC.

- D9 –What would be the size and duration of EFSF credit lines?

The typical size of an EFSF credit line would be 2 to10% of GDP of a beneficiary country. In terms of duration, it would be 1 year renewable for 6 months twice.

Primary market intervention[13]

- D10 - What is the objective of primary market intervention by EFSF?

The main objective is to allow a Member State to maintain or restore its relationship with the dealer / investment community and therefore reduce the risk of a failed auction. It would also serve to increase efficiency of EFSF lending.

- D11 – Which countries could benefit from EFSF primary market intervention?

Bond purchase operations in the Primary Market could be made in complement to regular loans under a macroeconomic adjustment programme or to drawdown of funds under a precautionary programme. This instrument would be used primarily towards the end of an adjustment programme to facilitate a country's return to the market.

- D12 –Would conditionality be attached?

Conditions would be those of the macroeconomic adjustment programme or precautionary programme.

- D13 –What is the relation between the EFSF's primary market intervention and the ECB's Outright Monetary Transactions (OMT)?

As announced by ECB President Mario Draghi on 6 September 2012, Outright Monetary Transactions, i.e. is the purchase of euro area sovereign bonds on the secondary market by the ECB, will be considered for future cases of EFSF/ESM macroeconomic adjustment programmes or precautionary programmes, provided that they include the possibility of EFSF/ESM primary market purchases. OMT may also be considered for Member States currently under a macroeconomic adjustment programme when they will be regaining bond market access.

- D14 –Would there be a limit to the amount purchased?

Any primary market purchases be the EFSF would be limited to no more than 50% of the final issued amount. However, this restriction would not apply if loans or payments made under a precautionary programme are extended by way of primary market purchases of CIFs.

- D15 –What would EFSF do with the bonds purchased?

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[13] See EFSF Guideline on Primary Market Purchases http://www.efsf.europa.eu/attachments/efsf_guideline_on_primary_market_purchases.pdf

Once purchased by EFSF, securities could be either

- resold to private investors when market conditions have improved
- held until maturity
- sold back to country
- used for repos with commercial banks to support EFSF's liquidity management

Secondary market intervention[14]

- D16 - What is the objective of secondary bond market intervention by EFSF?

Secondary bond market intervention by EFSF has a twofold objective. First, it serves to support the functioning of the debt markets and appropriate price formation in government bonds in exceptional circumstances where the limited liquidity of markets threaten financial stability and push sovereign interest rates towards unsustainable levels. Secondly, EFSF intervention could serve the purpose of a market making to ensure some liquidity in debt markets and giving incentives to investors to further participate in the financing of countries.

- D17 – Which countries could benefit from EFSF secondary market intervention?

Secondary market bond intervention could be provided for countries within a programme and also for non-programme countries.

- D18 –Would conditionality be attached?

For countries under a programme, the conditionality of that programme applies. For those not in a programme, conditionality refers to a) ex-ante eligibility criteria as defined in the context of the European fiscal and macro-economic surveillance framework and b) appropriate policy reforms (defined in MoU)

- D19 –What would be the procedure to activate secondary market purchases?

The procedure would be initiated by a request from a Member State to the Eurogroup President. However, in exceptional circumstances, ECB could issue an early warning to the Euro Working Group. In all cases, it will be subject to an ECB report identifying risk to euro area and assessing need for intervention. The procedure should take 2-3 days.

- D20 –What would EFSF do with the bonds purchased?

As with purchases in the primary bond market, securities purchased by EFSF on the secondary bond markets could be either resold to private investors when market conditions have improved, held until maturity, sold back to the beneficiary country or used for repos with commercial banks to support EFSF's liquidity management

- D21 –How will EFSF buy on the secondary markets?

The European Central Bank (ECB) will act as Fiscal Agent for the EFSF (and future ESM)

- D22 –For the ECB to intervene on behalf of the EFSF would you need a country request?

Yes.

[14] See EFSF Guideline on interventions in the secondary market
http://www.efsf.europa.eu/attachments/efsf_guideline_on_interventions_in_the_secondary_market.pdf

- D23 –Would you need a Memorandum of Understanding?

Yes.

- D24 –Will the EFSF take over bonds previously bought by the ECB?

This is not intended at this stage.

- D25 –Could the Co-Investment Fund take over bond previously bought by the ECB?

This is not intended at this stage.

Section E - Maximising the EFSF's lending capacity[15]

- E1 – Why is there a need to leverage?

Over recent months the sovereign debt markets of some Member States have been under pressure. The EFSF exists to help under such circumstances and the recently created set of new instruments can be used for this purpose. However, EFSF resources are limited compared to the size of the debt markets. Therefore we will use the capacity of EFSF more efficiently by leveraging its resources.

- E2 – How will EFSF be leveraged?

Two approaches will be used to enlarge EFSF's capacity. These two approaches respect the EU-Treaty and are compatible with the EFSF Framework Agreement and its guidelines.

- Option 1 - Partial risk protection. EFSF would provide a partial protection certificate to a newly issued bonds of a Member State. After initial issue, the certificate 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. A partial protection certificate would entitle the holder to claim their entitlement against this loss in EFSF bonds and cash under the condition that the certificate holder also holds an underlying bond.

- Option 2 - Co-Investment Fund (CIF). The creation of one or more Co-Investment Funds would allow the combination of public and private funding. A CIF would provide funding directly to Member States through the purchase of bonds in the primary and secondary markets, 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.

- E3 – By how much can EFSF leverage?

- The degree of leverage depends on the exact structure of the new instrument, market conditions, investor response to the new measures and the soundness of the countries benefiting from EFSF support facilities. Improved credibility is expected to reduce the amount of EFSF resources needed, because investors will ask for less risk protection and will be willing to put up more capital complementing EFSF.

- Therefore it is difficult to give precise figures at this stage on the leverage. It can only be determined after further discussions with investors and assessments from rating

[15] Please see Terms of Reference Maximising the capacity of EFSF
http://www.efsf.europa.eu/attachments/efsf_terms_of_reference_maximising_the_capacity.pdf

agencies. The two approaches have been developed so as to be attractive to the international investor community. They cover different investor needs to unfold the maximum impact. We firmly believe that the two approaches chosen provide a robust strategy which attracts investors.

- The EFSF has the flexibility to use these two options simultaneously to increase the robustness of the financing strategy.

➢ E4 – Can the EFSF start intervening on primary and secondary markets immediately?

The instruments agreed in July are now operationalized through the guidelines which were adopted. EFSF has now set up all practical arrangements. It has broadened its funding strategy and has set up the necessary infrastructure.

➢ E5 – Will the EFSF cooperate more closely with the IMF?

IMF involvement has always been an important element of our crisis resolution framework. EFSF has asked the Eurogroup, the Commission and the EFSF now to contact the IMF and look into available options of closer cooperation with the EFSF support packages. The IMF has indicated that it would be ready to also support the policy monitoring outside its standard programme setup. So far the joint financing of programme countries has worked very well and underscored the usefulness of closer financial cooperation. EFSF would invite the IMF to explore any other options of co-financing or attracting capital.

➢ E6 –Would assistance under these options be linked to conditionality?

Financing under both options would be linked to a Memorandum of Understanding (MoU) entailing policy conditionality and appropriate monitoring and surveillance procedures.

➢ E7 - How will these options reduce the cost of issuance for the member state?

EFSF is providing loss protection for investors in newly-issued Member State bonds and thus the risk profile of these bonds for investors is reduced; this will be reflected in pricing.

➢ E8 - Will these options be focused just on Italy and Spain?

The options are designed to give the EFSF maximum flexibility to deploy mechanisms which can be most effective in the circumstances of any particular situation or country.

Option 1 – Credit enhancement

➢ E9 - What will be the scope of the protection under option 1?

The partial protection certificate will cover a portion of the principal value of a bond. The precise amount will depend on market conditions and the country circumstances but it will be in the range of 20 to 30% of the principal of the bond.

➢ E10 - How will the event of default be defined?

The certificate gives rise to a claim in the event of a Member State credit event under the full ISDA definition, which covers

(i) Failure by the Issuer to make full and timely payments of amounts scheduled to be due in respect of one or more bonds, subject to grace periods; or
(ii) Repudiation or moratorium; or
(iii) Restructuring

These losses will be determined based on the ISDA procedures

- E11 - How and when will the partial protection certificates pay out?

Following a default event, the incurred loss per bond will be determined. The certificate will entitle the holder of the partial protection certificate to claim their entitlement against this loss in EFSF bonds under the condition that the certificate holder also holds an underlying bond.

- E12 - Will the certificate cover both principal and interest of the underlying bond?

The intention is that it will cover part of the principal value of the underlying bond.

- E13 - Will the certificate cover more than one country?

No.

- E14 - Why should an investor participate in the scheme rather than buy a plain vanilla bond issued by the Member State?

Whilst existing member state market yields are higher than the coupon under the scheme, investors holding the partial protection certificate will enjoy a degree of credit protection provided by EFSF bond collateral.

- E15 - Who are the likely users of the scheme?

Institutional investors willing to detain European Sovereign with credit enhancement.

- E16 - How will EFSF ensure a liquid market for the certificates?

This will be a relevant consideration for the EFSF in deciding how to activate the scheme in relation to a particular country, and EFSF will engage closely with relevant market participants.

- E17 - How will negative pledge clauses relating to existing Member State obligations affect the scheme?

This will be determined through due diligence in relation to the circumstances of any specific country before the EFSF decides to implement the scheme in relation to that country.

- E18 - Will this scheme increase the headline debt figure of the Member State?

Any statistical effect of this sort will be determined in discussion with Eurostat.

- E19 – Has EFSF had direct conversations with investors and what were their reactions?

Initial conversations have been held with a number of investors; these have provided information on the design of the scheme.

Option 2 – Co-Investment Fund (CIF)

- E20 – What is the structure of such a CIF?

One or more special purpose vehicles (CIF) would be established; each dedicated CIF would have a mandate to facilitate funding of Member States, and invest in sovereign bonds of a specific country or multi countries in the primary and/or secondary markets. This vehicle could be funded by different instruments with distinctive risk/return characteristics. The instruments could include a senior debt instrument and a participation capital instrument, both of which would be freely traded instruments. In addition there would have to be an EFSF investment channelled through the Member State which will absorb the first proportion of losses incurred by the vehicle.

The mechanisms to implement this approach will be compatible with the operational model of EFSF.

The CIF structure should be set up so as to attract a broad class of international public and private investors. For that purpose, the senior debt instrument could be credit rated and targeted at traditional fixed income investors. The participation capital instrument could be junior to the senior debt instrument but rank ahead of the EFSF investment. This might attract Sovereign Wealth Funds, risk capital investors and potentially some long-only institutional investors. This tranche will potentially share with EFSF any upside generated by the investments.

- E21 - What will be the investment policy of a vehicle?

Each vehicle will have a clearly stated investment mandate.

- E22 - How will EFSF manage any conflict of interest/ governance issues for investors given the CIF will be controlled by EFSF?

There would be no conflict of interest as they have the same mission.

- E23 – Will the vehicle have a focus on primary or secondary purchases and what will the percentage split be?

In principle, either. This will be determined in the light of EFSF's assessment of what is likely to be most effective in the circumstances of the relevant country and depending on investor demand.

- E24 - How will a CIF reduce the cost of issuance of a member state?

The additional investment capacity that the vehicle is designed to attract to the market should have a positive effect on market prices.

- E25 - Which investors are expected to participate in the participating tranche?

A wide range of potential investors could be attracted, including risk capital investors, Sovereign Wealth Funds and long-only institutional investors.

- E26 - Can investors from outside the euro area participate?

Yes

- E27 - Will profits be distributed and if so, how?

The participation capital tranche could carry a modest coupon and it would benefit from net gains achieved when the bonds are redeemed. The senior debt tranche could carry a fixed coupon, but would receive no share in any upside. The EFSF could share some gains, or derive interest on its tranche, but this is yet to be determined.

- E28 - What is the ratio you expect between the EFSF first loss tranche, participation capital and senior bonds?

This will be decided by the EFSF in the circumstances of each CIF in a way that maximizes the effectiveness of EFSF resources and in the light of investor appetite

- E29 - What is the expected nature and size of the senior tranche?

The senior tranche will consist of traditional senior debt carrying a fixed coupon and is expected to be investment-grade.

➢ E30 - What is the expected size of the CIF portfolio?

This will depend on market circumstances and investor demand. In the first wave, large investors have committed €60 billion to the CIF.

➢ E31 - What would be the loss EFSF would have to take?

The CIF would be set up with a 2- or 3-tier capital structure, where the EFSF would invest in the first loss tranche. Under the Framework Agreement, EFSF needs to have recourse against the Member State for any loss on the EFSF first loss tranche, as if it were EFSF funding to the Member State. The maximum loss would depend on the size of the first loss tranche. The relative sizes of the three tranches, would all vary depending on investor participation.

➢ E32 - What kind of eligibility criteria and policy conditionality would be attached to primary and secondary market purchases?

Policy conditionality will be required in relation to any country receiving support through the scheme according to EFSF guidelines.

➢ E33 - Is the CIF covered by guidelines for new instruments

Both options rely on a transfer of funds from the EFSF to the beneficiary Member State and thus, given the EFSF Framework Agreement, they have to be covered by the guidelines for the new instruments. Financing under both options would be linked to a MoU entailing policy conditionality and appropriate monitoring and surveillance procedure and based on a Financial Assistance Facility Agreement.

➢ E34 - How long would it take to set up the CIF?

The introduction of the CIF was agreed by euro area Finance Ministers on 29 November. EFSF will now implement this approach to be ready early in 2012.

Section F – The programme for Ireland

➢ F1 – How much is the programme for Ireland?

On 28 November 2010, the ECOFIN Ministers concurred with the European Commission and the ECB that providing a loan to Ireland was warranted to safeguard the financial stability in the euro area and the EU as a whole. The total lending programme for Ireland is €85 billion.

➢ F2 – How will the programme be financed?

The programme for Ireland will be financed as follows:

- €17.5 billion contribution from Ireland (from the Treasury and the National Pension Fund Reserve)
- €67.5 billion in external support including
    - €22.5 billion from IMF
        - €22.5 billion from EFSM
        - €17.7 billion from EFSF + bilateral loans from the UK (€3.8 billion), Denmark (€0.4 billion) and Sweden (€0.6 billion)

➢ F3 – What are the conditions of the programme?

The programme rests on three pillars:

- An immediate strengthening and comprehensive overhaul of the banking system (€35 billion designated)

- An ambitious fiscal adjustment to restore fiscal sustainability, including through the correction of the excessive deficit by 2015
- Growth enhancing reforms, in particular on the labour market, to allow a return to a robust and sustainable growth, safeguarding the economic and social position of its citizens

➢ F4 – What is the issuance calendar for Ireland?

In 2011, EFSF disbursed over €7.5 billion to Ireland. The first tranche was a €5 billion bond issued on 25 January 2011. Out of the €5 billion issued, €3.6 billion was disbursed to Ireland. A second issue for €3 billion was placed on 7 November 2011[16]. The remaining amount was disbursed following the introduction of EFSF's bill programme.

In 2012, EFSF placed a 3-year €3 billion issue of which €1.27 billion was disbursed to Ireland on 12 January.

➢ F5 – What are the details of the first issue made for Ireland?

The first issue made by EFSF in support of the Irish programme was placed on 25 January 2011. Details are as follows:

Amount issued	€5 billion
Maturity	18/07/2016
Issuance spread	Mid swap + 6bp
Coupon	2.75%
Reoffer yield	2.89%
Reoffer price	99.302%
Settlement date	1 February 2011
Effective lending cost to Ireland	5.9%
Amount transferred to Ireland	€3.6 billion

Investor interest was exceptionally strong with an order book almost 9 times oversubscribed from more than 500 investors. Investor interest was diversified both in geographical terms and by client type. Particularly strong interest came from Asia which represented around 38% of the issue.

➢ F6 – What are the details of the second issue made for Ireland?

The second issue made by EFSF in support of the Irish programme was placed on 7 November 2011. Details are as follows:

➢ Amount issued	€3 billion
➢ Maturity	04/02/2022
➢ Issuance spread	Mid swap + 104bp
➢ Coupon	3.50%
➢ Reoffer yield	3.591%
➢ Reoffer price	99.216%
➢ Settlement date	14 November 2011
➢ Amount transferred to Ireland	€3 billion

For details on subsequent issues, please consult the EFSF website
http://www.efsf.europa.eu/investor_relations/issues/index.htm

[16] The issuance calendar has been revised from the amounts initially announced in Dec 2010
http://www.efsf.europa.eu/mediacentre/news/2010/2010-006-eu-and-efsf-funding-plans-to-provide-financial-assistance-for-*ireland*.htm

Section G - The programme for Portugal

- G1 – How much is the programme for Portugal?

Following the formal request for financial assistance made by the Portuguese authorities on 7 April 2011, the Eurogroup and ECOFIN Ministers agreed to grant financial assistance on 17 May. The financial package of the programme will cover financing needs up to €78 billion.

- G2 - How will the programme be financed?

The programme will be shared equally (€26 billion each) amongst: (i) the European Financial Stabilisation Mechanism, (ii) the EFSF, and (iii) the IMF.

- G3 -What are the conditions of the programme?

The three year programme joint EU/IMF programme is both ambitious and frontloaded. It will be based on three pillars:

- An ambitious fiscal adjustment to restore fiscal sustainability, including through the correction of the excessive deficit by 2013 respecting the original deadline set by the Council. Fiscal sustainability will be supported by (i) a strengthening of the budgetary processes, including enhanced monitoring and reporting, more efficient revenue administration and better control over Public-Private-Partnerships and State-Owned Enterprises; (ii) reforms of the health system and of public administration; (iii) an ambitious privatisation programme
- Growth and competitiveness enhancing reforms of the labour market, the judicial system, network industries and housing and services sectors, to foster sustainable and balanced growth and the unwinding internal and external macroeconomic imbalances
- Measures to ensure a balanced and orderly deleveraging of the financial sector and to strengthen the capital of banks, including adequate support facilities (€12 billion designated).

- G4 -What is the EFSF's issuance calendar for Portugal?

In 2011, EFSF issued €8 billion in support of Portugal through 2 benchmark issues.
The first issue, a €5 billion benchmark bond with a 10 year maturity, was placed on 15 June.
The second issue, a €3 billion bond with a 5 year maturity was placed on 22 June.
From the two issues, a total of €5.9 billion was disbursed to Portugal. A further €1 billion was disbursed through EFSF's short term funding programme.

In 2012, EFSF placed a 3-year €3 billion issue of which €1.73 billion was disbursed to Portugal on 12 January 2012.

- G5 – What are the details of the first issue made for Portugal?

The first issue made by EFSF in support of the Portuguese programme was placed on 15 June 2011. Details are as follows:

Amount issued:	€5 billion
Maturity	05/07/2021
Issuance spread:	Mid swap +17 bp
Coupon:	3.375%
Reoffer yield:	3.493%
Reoffer price:	99.013%
Settlement date:	22 June 2011
Effective lending cost to Portugal	6.08%
Amount transferred to Portugal	€3.7 billion

- G6 – And the details of the second issue made for Portugal?

The second issue made by EFSF in support of the Portuguese programme was placed on 22 June 2011. Details are as follows:

Amount issued:	€3 billion
Maturity	05/12/2016
Issuance spread:	Mid swap +6 bp
Coupon:	2.750%
Reoffer yield:	2.825%
Reoffer price:	99.636%
Settlement date:	29 June 2011
Effective lending cost to Portugal	5.32%
Amount transferred to Portugal	€2.2 billion

For details on subsequent issues, please consult the EFSF website
http://www.efsf.europa.eu/investor_relations/issues/index.htm

Section H – The second programme for Greece

➢ H1 – What is the second programme for Greece? [17]

At the euro zone summit held on 26 October 2011, euro zone Heads of State or Government agreed to a second financial assistance programme for Greece. The details of this programme were agreed by the Eurogroup on 21 February 2012[18].

➢ H2 – How much is the new Greek programme?

The details and amount of the new Greek programme are outlined in the table below.

Disbursement	Amount (bn)
Total Greek Package (including bank recap, undisbursed GLF – 24.4 bn and IMF contribution)	172.6*
of which	
PSI	Up to 30
Accrued interest	Up to 5.5
IMF contribution to the 2nd Greek programme	28 (of which 8.2 after 2014)
EFSF contribution to the 2nd Greek programme including:	109.1
Bank recap	up to €48
Undisbursed GLF	24.4
New GLF	36.7
* The financing needs until end 2014 are covered by the amount of 164.4 bn, while the 8.2 bn will be disbursed by the IMF subsequently.	

➢ H3 – What are the details of the Private Sector Involvement (PSI)?

[17] The first financial support programme for Greece (April 2010) involved bilateral loans from euro area Member States amounting to €80 bn, and a €30 bn loan from the IMF. It did not involve the EFSF.
[18] http://www.consilium.europa.eu/media/1440478/statement_on_greece_21_february_2012.pdf

The public offer for the PSI was launched by the Hellenic Republic on 24 February and closed on 8 March. On 9 March, it was announced that bondholders holding 85.8% of Greece's Greek law-bonds agreed to the bond swap[19]. The activation of Collective Action Clauses lifted the participation rate to 95.7%. This led to a 53.5% reduction in the nominal face value of Greek debt held by private investors which corresponds to a reduction in the debt stock of approximately €107 billion for Greece.

- H4 – What is the objective of PSI?

The objective is to secure the decline of the Greek debt to GDP ratio with an objective of reaching 120% by 2020. Due to the high take up of the bond swap, Greece's debt is expected to fall below 120% of GDP in 2020, reaching 117%.

- H5 – How will the EFSF contribute to the second assistance programme for Greece?

The second Greek Programme is envisaged to cover the financing needs of Greece until the end of 2014 and it includes the undisbursed contribution from the Greek Loan Facility. EFSF will have to provide these amounts minus the contribution of the IMF. The second programme has a bank recapitalisation component of up to €48 billion (including an initial €25 billion in the PSI package).

The other elements which require financing by the EFSF are:

- PSI Contribution (€29.7 billion at end April): as part of the voluntary debt exchange, Greece offered investors EFSF bonds (1 and 2 years). These EFSF bonds, provided to holders of bonds under Greek law, will subsequently be rolled over into longer maturities. Maturities for the refinancing will be decided according to market demand and in order to ensure a well-diversified EFSF portfolio covering the entire yield curve. Once the debt exchange offer has also been completed on Greek sovereign bonds, issued under foreign law, and Greek corporate and municipal bonds, guaranteed by the Greek state, the amount of the PSI contribution could increase to a total of €30 billion.

- Accrued interest (€4.82 billion at April): to enable Greece to repay accrued interest on outstanding Greek sovereign bonds under Greek law which will be included in the PSI. Greece has given investors EFSF 6-month bills. The bills will be subsequently rolled over into longer maturities to ensure smooth market operations. Once the debt exchange offer has been completed on Greek sovereign bonds, issued under foreign law, and Greek corporate and municipal bonds, guaranteed by the Greek state, the amount of accrued interest could increase up to €5.5 billion.

- Buy-Back for Eurosystem (€35 billion): to enable Greece to finance a buy-back offer, whereby Greece, acting through the ECB as its agent, offers to buy back from Eurosystem national central banks (NCBs) bonds issued or guaranteed by Greece, which are held by NCBs as collateral for Eurosystem monetary policy operations and in respect of which a monetary policy counterparty defaults. The buy-back offer is available for the period commencing on the date on which one or more of each of the three main credit rating agencies, as a result of the debt exchange, a default, selective default or restrictive default rating with respect to Greece or any bond issued or guaranteed by Greece. The buy-back offer will end 60 calendar days after the default, selective default or restrictive default triggered by the debt exchange is lifted by all three credit rating agencies, but no later than maximum ten months after the signature of the facility agreement. The objective of the buy-back offer scheme is to allow the continuing eligibility of bonds issued or guaranteed by Greece as collateral for Eurosystem monetary policy operations in this context. Greece received 1-year EFSF bonds for this operation and, if not used for buy-back, they will be returned and cancelled before their maturity.[20]

[19] Further details are available on https://www.bondcompro.com/greeceexchange/genDocuments.asp

[20] These bonds were returned to the EFSF on 25 July 2012 and were cancelled on 3 August 2012.

- The €35 billion for the buy-back for the Eurosystem will be on top of the new Greek package.

H6 – How will EFSF fund these amounts?

EFSF will use a flexible, diversified funding strategy to ensure that amounts to be funded are spread over the entire length of the programme. This also means that EFSF will be able to take advantage of the best possible market conditions.
The PSI contribution, accrued interest and loan programme (excluding the amount earmarked for bank recapitalisations) is financed through the markets. The collateral enhancement for the Eurosystem is a cashless operation. This is also expected to be the case for the recapitalisation of Greek banks which has been financed by the provision of EFSF bonds.

H7 – What will happen to the first Greek programme agreed in May 2010?

The first Greek programme has been discontinued. The remaining amount to be contributed by the euro area (€24.4 billion) will now be disbursed by the EFSF. The remaining €10 billion from the IMF from the first Greek programme has been transferred to the new Greek programme.

H8 – What decisions were taken by the Eurogroup on 13 December 2012?

Following an assessment by the European Commission, ECB and IMF that Greece had in a satisfactory manner implemented all the previously agreed policy reforms, the Eurogroup formally approved the second disbursement under the second economic adjustment programme for Greece.

The Eurogroup noted that the outlook for the sustainability of Greek government debt had worsened compared to March 2012 when the second programme was concluded, mainly due to a deteriorated macro-economic situation and delays in programme implementation. Therefore, the Eurogroup approved a set of measures (first proposed on 27 November 2012) designed to ease Greece's debt burden and bring its public debt back on a sustainable path, so that a level of debt-to-GDP of 124% could be achieved in 2020. These measures included:

- **Reduction of the Greek Loan Facility (GLF – bilateral loans to Greece) interest margin**: A lowering by 100 basis points of the interest rate charged to Greece on the loans provided under the GLF (Member States under a full financial assistance programme are not required to participate in the lowering of the GLF interest rates for the period in which they receive themselves financial assistance). This measure is estimated to lower the financing needs of the country by €1.9 billion by 2016.

- **Cancellation of the EFSF guarantee commitment fee** (conditional upon the continued implementation of reforms by Greece)**:** Cancellation of the guarantee commitment fee, amounting 10 basis points, paid by Greece on the EFSF loans. This measure is estimated to save a total of € 2.7 billion over the entire period of EFSF lending to Greece.

- **Maturity extension of GLF and EFSF loans[*]:** Even though the maturities of both loans by the GLF and the EFSF are long-term, this still creates an amortisation hump for Greece in 2020s, which could have hampered the country's return to market financing. An extension of the maturities of the bilateral and EFSF loans by 15 years does not per se have an impact on the reduction of debt by 2020 or beyond, but significantly improves the country's debt profile and improves conditions for a return to market financing.

- **Deferral of EFSF interest rate payments[*]:** A deferral of interest payments on EFSF loans

[*] Applies only to loans under EFSF Master Financial Assistance Facility Agreement, i.e. does not apply to PSI Facility or Bond Interest Facility

by 10 years will allow Greece to reduce substantially its financing needs. This operation will not create additional costs for the EFSF since Greece will have to pay interest charges on the deferred interest. This measure is estimated to lower the financing needs of the country by a total of €12.9 billion by 2016.

- **SMP Income:** A commitment by Member States to pass on to Greece's segregated account an amount equivalent to the income on the ECB's Securities Markets Programme (SMP) portfolio accruing to their national central bank as from budget year 2013 (Member States under a full financial assistance programme are not required to participate in this scheme for the period in which they receive themselves financial assistance).

- **Foregoing the previously programmed decline in the stock of T-Bills**: The decisions made by policymakers envisage maintaining a T-Bill stock of €15 billion through the end of the programme, thus reducing the financing needs of the country by €9 billion in the period 2012-2014 (or 1% of GDP).

- **Postponing part of the Treasury cash buffer build-up**: The March programme had foreseen a build-up of the Treasury cash buffer by €5 billion to provide some flexibility to the Greek treasury. Decisions taken in Eurogroup meetings suggest that the cash buffer build-up is partially postponed after the expiration of the programme. Over the 2012-2014 period, the cash buffer build-up is now reduced to €1.5 billion, and it is set to increase by an additional €2 billion in 2015-2016.

- **Other contingent measures:** Greece and other euro area Member States will consider further measures and assistance, including inter alia lower co-financing in structural funds and/or further reduction of the interest rate on the Greek Loan Facility, if necessary, to ensure that Greece can reach a debt-to-GDP ratio of 124% in 2020, and in 2022 a debt-to-GDP ratio substantially lower than 110%. This is contingent on Greece reaching an annual primary surplus, as envisaged in the current MoU and full implementation of all conditions contained in the programme.

The Eurogroup also stressed that the benefits of the above-mentioned measures would accrue to Greece in a phased manner and conditional upon the continued implementation of agreed reforms.

➢ H9 – How were these measures related to the buy-back of Greek debt?

Final approval for the above measures was conditional upon the success of a debt buy-back operation conducted by the Greek government. The buy-back applied to the new Greek sovereign bonds (NGGBs) issued in the context of the Private Sector Initiative (PSI) operation of March 2012. It was conducted through a tender operation open to all market participants holding NGGBs of any outstanding series. The debt buy-back (announced by the Greek Ministry of Finance on 3 December and completed on 11 December 2012) reduced the amount of the country's nominal debt by approximately €21 billion (in net terms).

➢ H10 – How is the debt buy-back financed?

The EFSF is providing a loan, within the envelope of the second financial assistance programme to Greece, to finance the buy-back operation. For this purpose, the EFSF issued six-month notes for a total nominal amount of €11.3 billion, which were transferred to the Greek government on December 19, 2012.

➢ H11 – What are the other components in the current disbursement of financial assistance to Greece?

The EFSF will provide funds to the Greek government for the Hellenic Financial Stability Fund (HFSF) to finance the recapitalization and resolution costs of selected banks. In addition, the

EFSF will provide funds to the Greek government for its budgetary financing needs.

- **H12 – Are there any specific transferability restrictions on the EFSF notes disbursed in the context of bank recapitalisation?**

No. In what concerns the EFSF notes disbursed in the context of bank recapitalizations, there are no specific transferability restrictions upon note holders other than those generally applicable pursuant to the terms and conditions of any notes issued under the EFSF Debt Issuance Programme.

The EFSF may only impose additional transferability restrictions on the basis of contractual agreements in place between the EFSF and a note holder which then would restrict only such note holder.

In case a market participant acquires legal title to EFSF notes – for example, in the context of a repo transaction with a recapitalised bank – and in the absence of an additional contractual arrangement, only the terms and conditions of such EFSF notes would apply.

- **H13 – What are the amounts to be disbursed to Greece in December 2012 and the first quarter of 2013?**

The disbursement will be made in several tranches. Overall, over this period Greece will receive €49.1 billion from the EFSF. This amount is part of the EFSF contribution of €109.1 billion agreed by the Eurogroup under the second Greek programme in February 2012. The details of the current disbursement by the EFSF are as follows:

December 2012	€ billion
for bank recapitalisation and resolution (EFSF notes)	16.0
for debt buy-back (EFSF notes)	11.3
for budgetary financing (cash)	7.0
Total	**34.3**
January – March 2013	
for bank recapitalisation and resolution (EFSF notes)	7.2
for budgetary financing (cash)	7.6
Total	**14.8**
Total EFSF disbursements	**49.1**

Source: EFSF

Section I – Financial assistance for Spain

The financial assistance facility for the recapitalisation of the Spanish banking sector, granted by the Eurogroup on 20 July 2012, was transferred from the EFSF to the ESM. Details of ESM assistance for Spain are available on the ESM website: http://www.esm.europa.eu/about/assistance/spain/index.htm and in a separate FAQ: http://www.esm.europa.eu/pdf/FAQ%20spain%2007120212.pdf

Section J – Financial assistance for Cyprus

➢ J1 – How much is the financial assistance programme for Cyprus?

On 25 June 2012, the Cypriot government made an official request for financial assistance to the Eurogroup. Based on a needs assessment, the financial assistance would be provided in the framework of a comprehensive adjustment programme. The programme, including the financing needs, will have to be agreed by the Commission, in liaison with the ECB and the Cypriot authorities.

➢ J2 – What is the objective of a programme for Cyprus?

The objective of the programme would be to address the financial, fiscal and structural challenges of the economy in a decisive manner to allow Cyprus to return to a sustainable growth path.

The programme will be based on:

- Ambitious measures to ensure the stability of the financial sector by addressing expected capital shortfalls and preserving the soundness of financial institutions including restructuring and downsizing where needed.
- Determined action to carry out the fiscal adjustment to support the ongoing process of fiscal consolidation
- Structural reforms to support competitiveness and sustainable and balanced growth, allowing for the unwinding of macroeconomic imbalances

➢ J3 – Will the IMF also be involved?

Cyprus has also made a request to the IMF for financial assistance. This request is currently being considered in line with its internal procedures. The IMF has stated that it stands ready to join the efforts of Europe to help Cyprus return to stable and sustainable economic growth and restore a solid financial sector.

➢ J4 – Will the financial assistance be provided by the EFSF or the ESM?

The financial assistance package will be provided by the EFSF or the ESM on the basis of its financing instruments.

Section K – European Stability Mechanism[21]

➢ K1 – What is the European Stability Mechanism (ESM)?

[21] For further details, please consult the European Council Conclusions of 25 March 2011 http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/120296.pdf

On 24 June 2011, the European Council decided to establish a permanent crisis resolution mechanism – the European Stability Mechanism (ESM).
The function of the ESM will perform the same activities as the amended EFSF:

- issue bonds or other debt instruments on the market to raise the funds needed to provide loans to countries in financial difficulties.
- intervene in the primary and secondary debt markets
- act on the basis of a precautionary programme
- finance recapitalisations of financial institutions through loans to governments including in non-programme countries
- at the euro area summit on 29 June 2012, it was proposed that once an effective supervisory mechanism is established for banks in the euro area, involving the ECB, the ESM could, following a regular decision, have the possibility to recapitalise banks directly

All financial assistance to Member States is linked to appropriate conditionality.

The ESM will use an appropriate funding strategy so as to ensure access to broad funding sources and enable it to extend financial assistance packages to Member States under all market conditions.

K2 - What is the legal form of the ESM?

The ESM is established as an intergovernmental organisation under public international law.

K3 – Where is the ESM headquartered?

The ESM's office is in Luxembourg.

K4 – Who governs the ESM?

The ESM has a Board of Governors consisting of the Ministers of Finance of the euro area Member States (as voting members) with the European Commissioner for Economic and Monetary Affairs and the ECB President as observers.
The ESM also has a Board of Directors. Each euro area country will appoint one Director and one alternate Director.
The Board of Governors appoints a Managing Director responsible for the day-to-day management of the ESM. The Managing Director chairs the Board of Directors.

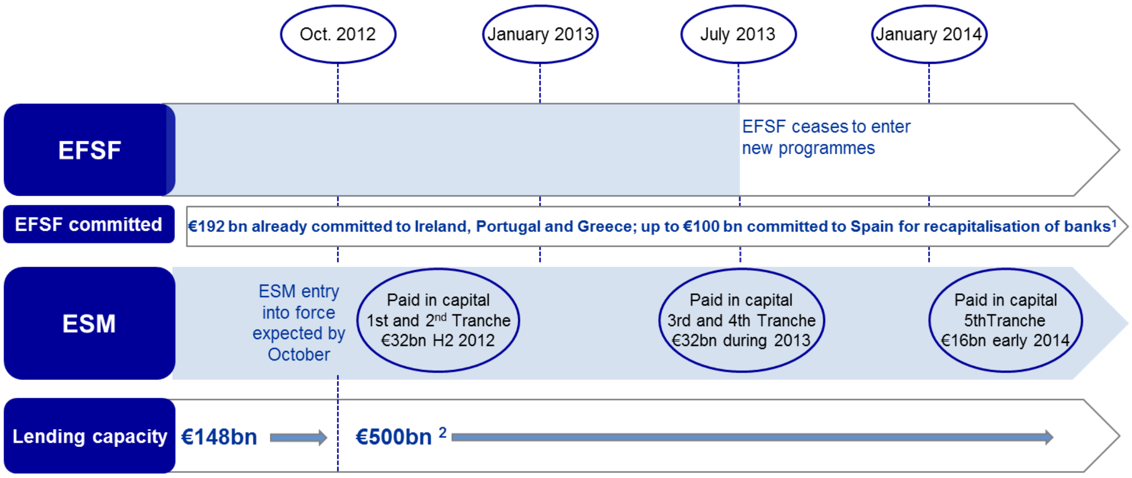
K5 – When did the ESM become operational?

The ESM treaty entered into force on 27 September and the ESM was inaugurated on 8 October 2012.

The ESM will be fully operational, i.e. ready to finance new support programmes several days thereafter. It will take a short time to finalise the last legal steps that cannot be completed until the institution exists, e.g. registration with the stock exchange. Due to the fact that the existing EFSF staff also work for the ESM, a smooth transition has been ensured between the two institutions.

K6 - What will be the ESM's lending capacity?

The ESM's effective lending capacity will be €500 billion. However, following the Eurogroup meeting held on 30 March, it was decided that the EFSF would remain active until July 2013. The combined lending capacity of EFSF/ESM is illustrated by the diagram below. Overall lending will not exceed €700 billion.



[1] The amount provided to Spain for bank recapitalisation will be transferred to the ESM, thus the combined EFSF-ESM lending capacity of €700 bn will be maintained

[2] Up to 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.

➢ K7 – What is the status of the EFSF now that the ESM has been launched?

The ESM will be the main instrument to finance new financial assistance programmes. The EFSF will, as a rule, only remain active in financing programmes that have started before that date. For a transitional period until 2013, EFSF may engage in new programmes in order to ensure a full fresh lending capacity of €500 billion. After 2013, EFSF will continue in an administrative capacity until all outstanding bonds and loans have been repaid.

➢ K8 – Will the EFSF continue to issue bonds under the existing programmes for Ireland, Portugal and Greece? Will the EFSF adjust its funding target once the ESM is operational?

The EFSF will finance the programmes that started before the ESM Treaty was signed. It will therefore continue to issue bonds to fund the programmes for Ireland, Portugal and Greece. As the funding activity remains the same, no adjustments to its funding targets are necessary.

➢ K9 – Assuming that one of these countries needs further support than the scheduled €192bn, does this mean that the EFSF could also issue more bonds after 2014 (when the program for Greece is supposed to end)? Or will the ESM take care of that additional financing? However, this would still leave the combined EFSF/ESM lending volume cap at EUR700bn?

If one of these countries were to need further support, a new programme and a new Memorandum of Understanding would be necessary. Granting such a programme would require a decision at political level. It would in principle not be undertaken by the EFSF, which will not be able to initiate new programmes after 30 June 2013.

➢ K10 – How is the ESM's capital be structured?

The ESM will have a total subscribed capital of €700 billion. Of this amount, €80 billion will be in the form of paid-in capital provided by the euro area Member States in five instalments of €16 billion. The first two instalments have already been paid, the next two instalments will be paid in 2013 and the final tranche in the first half of 2014.

In addition, the ESM will also dispose of a combination of committed callable capital from euro area Member States to a total amount of €620 billion. During the transitory phase from 2013 to 2014, Member States commit to accelerate, in the unlikely event that this is needed, the provision of appropriate instruments in order to maintain a minimum 15 per cent ratio between paid-in capital and the outstanding amount of ESM issuances.

K11 – The subscribed capital is €700 bn; why has the support volume only be set to €500 bn?

In order to provide additional assurance to investors and to obtain a top the rating agencies, the maximum lending volume was set at EUR 500 billion. This means that the subscribed capital exceeds the maximum lending volume by 40%.

K12 - What is the ESM's shareholder contribution key?

The ESM shareholder contribution key is based on the ECB contribution key. Member States with a GDP per capita of less than 75% of the EU average will benefit from a temporary correction for a period of 12 years after their entry in the euro area.
The temporary correction will be three quarters of the difference between GNI and ECB capital shares. The downwards compensation on those countries is redistributed among all the other countries according to their ECB key shares:

Country	ESM Key (%)	Capital subscription (€ bn)
Austria	2.783	19.48
Belgium	3.477	24.34
Cyprus	0.196	1.37
Estonia	0.186	1.30
Finland	1.797	12.58
France	20.386	142.70
Germany	27.146	190.02
Greece	2.817	19.71
Ireland	1.592	11.14
Italy	17.914	125.39
Luxembourg	0.250	1.75
Malta	0.073	0.51
Netherlands	5.717	40.02
Portugal	2.509	17.56
Slovakia	0.824	5.77
Slovenia	0.428	2.99
Spain	11.904	83.32
Total	**100**	**700.00**

K13 – What happens if a country cannot meet capital calls?

There are three different instances when a capital call can be made:

1) General capital calls
2) Capital calls to replenish paid-in capital
3) Emergency capital calls

1) A <u>general capital call</u> concerns payment of the initial capital and an increase of paid-in capital which could be necessary, for example, to raise the lending capacity. To initiate such a call, the Managing Director of the ESM, would make a proposal to the Board of Governors outlining the objective of such a call, the amounts and contributions for each shareholder and a proposed payment schedule. The Board of Governors, with mutual agreement, may call in authorized capital at any time.

2) A capital call to replenish paid-in capital could happen for two reasons: a) to cover any losses in paid-in capital due to a non-payment by a beneficiary country and b) in order to maintain a minimum 15% ratio between paid-in capital and the lending capacity of ESM. The Managing Director would again make a proposal, this time to the Board of Directors, which would specify the losses incurred and the underlying reasons. Simple majority of the Board of Directors is required to agree to call in capital under these circumstances.
If any ESM member fails to meet the required capital call, one or more revised increased capital calls would be made to all ESM Members by increasing the contribution rate of the remaining ESM Members on a pro-rata basis. When the ESM Member which failed to contribute settles its debt to the ESM, the excess capital is returned to the other ESM Members.

3) Finally, an emergency capital call would be used for the acceleration of the paid-in capital during the ramp-up period to comply with the requested capital ratio and to avoid default of an ESM payment obligation to its creditors. The Managing Director would have the responsibility to make such a capital call to ESM shareholders if there were such a risk of default. As stated in the ESM treaty, the ESM shareholders have irrevocably and unconditionally undertaken to pay on demand such a capital within 7 days of receipt of the demand. However, if any ESM Member fails to meet the required capital call, the same procedure would apply as for capital calls to replenish paid-in capital. This mechanism works effectively like a guarantee and provides the strongest possible assurance to ESM bondholders that they will always be serviced and repaid.

K14 – Does the ruling of the German Constitutional Court of 12 September 2012 have an effect on the way the capital calls work?

No, as follows from the previous answer, the ruling of the German Constitutional Court does not change anything for Germany with respect to capital calls. All Member States share this interpretation of the Court's ruling.
The particular payment obligations of each future ESM member resulting from the capital calls mentioned above are limited to the amounts stipulated in Annex II to the Treaty. In the case of Germany, for instance, any liability is capped at €190 billion, unless ESM Members unanimously agree to change the amount of subscribed capital.

K15 – How is the ESM rated?

The ESM has been assigned the highest long and short-term ratings by Moody's (Aaa, P-1) and Fitch (AAA, F1+). S&P has not assigned its rating yet.

K16 – If a new country asks for assistance in the primary and/or secondary markets, and if the ESM is not fully ready yet, and the EFSF starts providing such assistance, will this assistance be ultimately transferred to the ESM when the latter is finally ready, like for the recapitalisation of Spanish banks?

It is expected that the ESM will be ready very soon to provide assistance to new countries which may ask for such assistance. In the very unlikely event that emergency funding would be required before ESM is fully operational, EFSF would be there as a backstop. The assistance would subsequently be transferred from EFSF to ESM.

K17 –Will ESM loans have preferred creditor status?

It is the mutual understanding of ESM members that ESM loans under a macroeconomic adjustment programme and recapitalisation facilities will enjoy preferred creditor status in a similar fashion to those of the IMF, while accepting preferred creditor status of the IMF over the ESM. This would, however, not apply to ESM financial assistance in the form of ESM loans following a European financial assistance programme existing at the time of the signature of the ESM Treaty.

The decision to forego preferred creditor status in the case of the recapitalisation of Spanish banks was one-off in nature, as the Financial Assistance Facility Agreement (FFA) was negotiated by the EFSF. This FFA will be transferred to the ESM with rights and obligations, including the EFSF's pari passu status.

- K18 – Would it be possible to make changes to the ESM's seniority status without amending the ESM treaty?

Seniority for ESM loans is a mutual understanding between ESM members and is mentioned in recital (13) of the ESM treaty. Reference is made to the decision of Heads of State and Government in that regard. A repeal or amendment of their earlier statement would therefore also require a decision by the Heads of State or Government. In several Member States it would require support by the national parliament.

- K19 – Would it be necessary to amend the ESM Treaty for the ESM to directly recapitalise banks?

Based on Article 19 of the ESM Treaty it would be possible without a treaty change, by a unanimous decision of the Board of Governors.

- K20 – Do you intend to ask for a banking license for the ESM ?

No. The ECB published an analysis last year according to which the ECB is not allowed for legal reasons to grant the ESM a banking license, which holds similar for the EFSF. In addition, requesting access to ECB liquidity would require mutual agreement of all of the ESM shareholders.
It should be pointed out that the question of a banking license is often over-interpreted. It would make funding easier, but would not allow unlimited lending by the EFSF or ESM.

- K21 – Can the ESM Treaty still be changed?

Any treaty can be amended if all the signatory countries agree to do so. Our Member States have different national procedures regarding international treaties and in several of the Member States, this would require the involvement of the national parliament in line with their ratification procedures.

- K22 – Can the discussed changes to the seniority status and the direct bank recapitalisation of the ESM be decided without a new ratification of the ESM treaty?

Seniority for ESM loans is a mutual understanding between ESM members and is mentioned in recital (13) of the ESM treaty. Reference is made to the decision of Heads of State and Government in that regard. A repeal or amendment of their earlier statement would therefore also require a decision by the Heads of State or Government. In several Member States it would require support by the national parliament.

With regards to direct bank recapitalisation, it may be argued that based on Article 19 of the ESM Treaty it would be possible without a treaty change, by a unanimous decision of the Board of Governors.

- K23 – Will the ESM be able to participate in the repo market to finance bond purchases?

No, with regard to ECB's repo operations. Yes, with private banks or other market participants.

- K24 – Will the ESM be able to use the paid in capital to purchase sovereign bonds in the market?

The paid-in capital will be invested in high quality liquid assets and in accordance with ESM investment guidelines. It will serve as loss absorbing capital only. Thus the paid-in capital will not be used to purchase sovereign bonds under an ESM primary or secondary market intervention, but it could be used to purchase top-rated and liquid sovereign bonds for investment purposes.

- K25 – Will the EFSF and ESM be merged?

The EFSF is a company established under Luxembourg law whereas the ESM is an intergovernmental institution established under international law. As legal entities with such different structures, the two institutions will not be merged.

However, the current staff of the EFSF will also work for the ESM. This will ensure that the ESM will be fully operational in October. It will also allow the ESM to benefit from the experience gained by the EFSF staff. Over the last two years, EFSF has become a well-established issuer in the sovereign debt market. We fully expect to continue this success with the ESM.

- K26 – Will the EFSF and ESM be parallel in the market?

Yes, it is likely but EFSF and ESM issuance will be managed by the same team ensuring full coordination between the two entities but working on the basis of two separate balance sheets.

- K27 – There is a theoretical possibility that the ESM would take over EFSF bonds in the ESM Treaty. Will this happen? What would be the process?

No, this is not currently envisaged.

- K28 – Do you know when ESM will start to issue and what its yearly funding volume will be?

Any ESM issuance will of course depend upon if and when an ESM Member State submits a request for financial assistance. Similarly, the funding volume cannot be known until a request for assistance has been made and a programme has been determined.

- K29 – Do you expect ESM bonds to be trading tighter than EFSF?

Thanks to the stronger and more transparent capital structure (paid-in capital) of the ESM, it may be envisaged that the ESM would obtain more favourable funding costs. However, these costs also depend on market conditions, thus it may be premature to speculate on this issue.

- K30 – Will the funding for the Spanish bank recap be done by means of bonds transferred to Spain (i.e. cashless operation) or by means of capital market funding?

The funding for the Spanish bank recap will in general take the form of ESM notes provided to FROB (the Spanish bank restructuring agency).

- K31 – Will the EFSF and/or the ESM also issue Schuldschein loans? This would especially be in the interest of German insurance companies?

This is an interesting option, and we do try to provide investors with opportunities that match their needs, but again it is too early to give a definitive answer.

- K32 – What will be the funding strategy of the ESM?

The ESM will apply a diversified funding strategy like the EFSF, which entails the use of a variety of instruments and maturities to ensure the efficiency of funding and continuous market access. One feature of this strategy is that funds raised through various instruments are not attributed to a particular country. The funds are pooled and then disbursed to programme countries. Whilst it is possible for the ESM to issue in different currencies such as USD, the ESM will initially focus on establishing a curve of benchmarks denominated in euro.

- K33 – When will the ESM guidelines on primary and secondary market purchases be published? Will they be similar to the EFSF ones?

The ESM guidelines are expected to be published on the ESM website following the inauguration of the ESM. The ESM guidelines will broadly resemble the EFSF guidelines.

- K34 - What is the objective of the ESM's Primary Market Support Facility (PMSF)?

The ESM may engage in primary market purchases of bonds or other debt securities issued by ESM Members to allow them to maintain or restore their relationship with the dealer/investment community and therefore reduce the risk of a failed auction. It would also serve to increase efficiency of ESM lending.

- K35 – Which countries could benefit from ESM primary market intervention?

Bond purchase operations in the primary market could be made in complement to regular loans under a macroeconomic adjustment programme or to drawdown of funds under a precautionary programme. This instrument would be used primarily towards the end of an adjustment programme to facilitate a country's return to the market.

- K36 –Would conditionality be attached?

Conditions would be those of the macroeconomic adjustment programme or precautionary programme.

- K37 – How would ESM secondary market purchases work?

Secondary market purchases conducted by the ESM would be based on the same procedure as the one agreed for the EFSF. In both cases the ECB would act as fiscal agent.

- K38 – What is the exact procedure? How is the ECB involved?

Secondary market support could be provided for ESM Members requesting a secondary market support facility. Such a ESM member may be under a macroeconomic adjustment programme or a precautionary programme. The conditionality attached to the secondary market support facility would be spelled out in a MoU.

Decisions on interventions on the secondary market would be taken on the basis of an analysis of the ECB recognising the existence of exceptional financial market circumstances and risks to financial stability for the euro area.

With respect to the announcement by the President of the European Central Bank, Mario Draghi, on 6 September of the decision to undertake Outright Monetary Transactions (OMTs), it should be noted that interventions by the ECB on the secondary market will be carried out only for countries that have requested EFSF/ESM support and where such a request has been approved by the Eurogroup. The ECB would purchase bonds on the secondary market, while the EFSF/ESM would conduct primary market purchases.

- K39 – Are you considering pre-funding to be equipped for secondary market purchases?

This is not an issue currently under consideration.

- K40 – Can we expect the EFSF to provide partial risk protection certificates or co-investment funds in the near future? Or is it only a theoretical option, which will not be used? Are these only mechanisms for the EFSF, or also for the ESM?

Our Member States are considering extending to the ESM the options introduced last year to maximise the capacity of the EFSF: the partial protection certificates and the co-investment funds. These options could be used to support market access for countries within a full or precautionary programme.

Technical work is under way and will be considered in due course by the ESM governing bodies once the ESM is operational.

- K41 – Could Spain itself - the sovereign / government - use parts of the EUR100bn support assigned for the banking sector?

No. The Memorandum of Understanding for the Spanish banking system does not allow any other use. If the full EUR 100 billion earmarked is not required for the Spanish bank recapitalisation, it will be a political question whether the remaining amounts, based on a new Memorandum of Understanding, would be allocated to Spain for other purposes.

- K42 - Will the ESM require specific credit enhancements?

The ESM will aim to obtain and maintain the highest credit rating from the major credit rating agencies.

The ESM will have a capital structure similar to multilateral lending institutions. It can be expected that this will be reflected in the assessment by credit rating agencies in line with their general standards for subscribed capital and operating procedures of such institutions.

Unlike the EFSF, ESM's structure will comprise paid-in capital and callable capital and therefore credit enhancements will not be required.

- K43 – Will the IMF be involved in the ESM?

The ESM will cooperate very closely with the IMF in providing stability support. Wherever possible, a participation of the IMF will be sought on a technical and financial level. A euro area Member State requesting financial assistance from the ESM is expected to address, wherever possible, a similar request to the IMF.

- K44 – Can non-euro area Member States participate in ESM programmes?

Non-euro area Member States may participate on an ad hoc basis alongside the ESM in financial assistance operations for euro area Member States.

- K45 – What is the procedure granting stability support by the ESM?

Financial assistance from the ESM will in all cases be activated on a request from a Member State to the Chairperson of the ESM's board of governors.

If ESM Stability Support (ESS) is requested, the Commission in liaison with the ECB shall assess the existence of a risk to the financial stability of the euro area as a whole. It shall also assess whether public debt is sustainable. Wherever appropriate and possible, such an assessment is expected to be conducted together with the IMF. It shall also assess the actual financing needs of the Member State concerned.

Based on this assessment, the Commission shall negotiate in liaison with the ECB, and wherever possible, together with the IMF, a memorandum of understanding (MoU) detailing the conditionality attached to the financial assistance facility. The Commission shall sign the MoU on behalf of the ESM.

The ESM's Board of Directors shall then approve the financial assistance facility agreement detailing the technical aspects of the assistance.

The Commission, in liaison with the ECB and, wherever possible, together with the IMF, will be responsible for monitoring compliance with the conditionality attached to the financial assistance facility.

- K46 – How does the ESM's emergency voting procedure work?

The ESM Treaty includes an emergency voting procedure, whereby financial assistance can be granted if supported by a qualified majority of 85% of the votes cast. When this procedure is used, a provision from the reserve fund and/or the paid-in capital to an emergency reserve fund is made in order to cover the risks arising from the financial support granted under this procedure.

- K47 - Will there be a link with the "fiscal compact"?

Following agreement reached at the European Council on 30 January on the fiscal compact, the ESM treaty now stipulates that the granting of financial assistance will be conditional, as of 1 March 2013, on the ratification of the fiscal compact by the ESM member state concerned.

Annex

Initial EFSF FAQs before amendment of Framework Agreement.

- 1 – What was the initial lending capacity of EFSF

At the establishment of EFSF in May, the total guaranteed commitments were agreed to be €440 billion.

- 2 – What was the corresponding guarantee commitment per country?

The country contribution key is in accordance with each country's share in the paid-up capital of the European Central Bank (ECB). The initial guarantee commitment per country was as follows:

	EFSF Guarantee Committments (€m)	EFSF contribution key (%)
Austria	12,241	2.78
Belgium	15,292	3.48
Cyprus	863	0.20
Finland	7,905	1.79
France	89,657	20.38
Germany	119,390	27.13
Greece	12,388	2.82
Ireland	7,002	1.59
Italy	78,785	17.91
Luxembourg	1,101	0.25
Malta	398	0.09
Netherlands	25,144	5.71
Portugal	11,035	2.51
Slovakia	4,372	0.99
Slovenia	2,073	0.47
Spain	52,353	11.9
Total	**440,000**	**100**

- 3 – What is the credit enhancement structure?

In order to ensure the highest possible credit rating, various credit enhancements were put into place:

- an over-guarantee of 120 per cent on each issue.
- an up-front cash reserve which equals the net present value of the margin of the EFSF loan.
- a loan specific cash buffer

Together these credit enhancements ensure that all loans provided by EFSF are backed by guarantees of the highest quality and sufficient liquid resource buffers. The available liquidity is invested in securities of the best quality.

4 - What is the interest rate of EFSF loans?

The interest rate is the fixed annual rate which accrues on the net loan amount during each interest period which is equal to the sum of EFSF's cost of funding (excluding any negative carry component which has been deducted on the disbursement date) and the margin, irrespective of maturity, applicable to such net loan amount. Currently the margin for Ireland stands at 247 basis points, the margin for Portugal is 208 basis points following the conclusions of the March European Council for lower interest rates.

Following the euro zone summit of 21 July, interest rates would be lowered to an equivalent of those of the Balance of Payments facility, close to, without going below, the EFSF funding cost.

5 - Can EFSF invest proceeds to manage excess liquidity?

Funds raised by EFSF will be provided as loans to the euro area Member States who have requested financial support. However the cash reserve and the loan-specific cash buffer, which is retained by EFSF, are invested in very safe and liquid assets. Asset-liability management is currently conducted by the German Debt Management Office.

6 – Could EFSF be considered as a Collateralized Debt Obligation (CDO)?

No, EFSF is not a CDO. 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.