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The Two-Pack on economic governance: Establishing an EU framework for dealing with threats to financial stability in euro area member states

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EXECUTIVE SUMMARY

The global economic and financial crises have exposed weaknesses in economic and budgetary surveillance and overall economic governance in the Economic and Monetary Union. The ongoing reform of economic governance has already addressed a number of major weaknesses of economic surveillance and coordination. To strengthen the existing legislative framework, a legislative package on economic governance – the so-called Six Pack – was elaborated and entered into force in December 2011. The Six-Pack has strengthened substantially the instruments available for the EU's economic policy coordination and multilateral surveillance.

As the uncertainty relating to the sovereign debt crisis in some Euro Area Member States continued, the extent and potential consequences of the spillovers between euro area Member States' economic, financial and budgetary situations has become increasingly evident. Based on this rationale and building on the Six-Pack, the European Parliament and the Council adopted two further pieces of legislation aimed at strengthening the surveillance mechanisms in the euro area which entered into force at the end of May 2013.

This so-called Two-Pack on economic governance comprises two proposals: a regulation on the strengthening of economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties with respect to their financial stability in the euro area (i.e. the regulation on enhanced surveillance) and a regulation on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area. This paper focuses on the former of the two regulations mentioned above and attempts to explain the key provisions of the new regulation.

First, the regulation makes Member States experiencing or threatened with serious difficulties with regard to their financial stability or receiving financial assistance on a precautionary basis subject to enhanced surveillance. The economic and financial integration of all Member States and in particular those whose currency is the euro, calls for enhanced surveillance to prevent contagion from a Member State experiencing or threatened with serious difficulties with respect to its financial stability to the rest of the euro area and, more broadly, to the Union as a whole. A Member State under enhanced surveillance should take measures to address the sources or potential sources of difficulties. In addition, the Commission can request specific measures to implement the enhanced surveillance regime. The Commission will monitor regularly in liaison with the ECB and with the relevant European Supervisory Authorities (ESAs) and, where appropriate, the IMF the progress made in implementing all those measures.

Second, the new regulation aims at articulating the financial assistance granted outside the framework of the Union with the Treaty. During the crisis, financial stability mechanisms have been established to provide financial assistance to euro area Member States. Mostly, these mechanisms are based on intergovernmental arrangements (e.g. EFSF and ESM). Against that background, the regulation aims at ensuring that there is full consistency between the Union multilateral surveillance framework established by the Treaty and the possible policy conditions attached to financial assistance granted outside the Treaty framework. It sets out notably a clear procedure for preparing and adopting macro-economic adjustment programmes.

Third, the regulation creates a system of post-programme surveillance for countries which have received financial assistance, as long as a minimum of 75% of the financial assistance received has not been repaid. This will help ensuring that the country concerned remains firmly on track.

Finally, the paper describes a number of provisions outlined in the legislation that aim at increasing accountability and transparency. In particular, this regards the involvement of national parliaments and the European Parliament as well as the involvement of relevant stakeholders in the new procedures set out in the legislation.

1. A NEXT STEP IN STRENGTHENING EU ECONOMIC GOVERNANCE

The global economic and financial crises have exposed weaknesses in economic and budgetary surveillance and overall economic governance in the Economic and Monetary Union. The ongoing reform of economic governance has already addressed a number of major weaknesses of economic surveillance and coordination. The European Semester that was first introduced in 2011 presented an integrated approach to surveillance across different policy areas: fiscal, financial, structural and labour market policies. The Semester also ensures that Member States receive policy advice before they draw up their budgets in the second half of the year.

To further strengthen the existing legislative framework, a legislative package on economic governance – the so-called Six Pack – was elaborated and entered into force in December 2011 (see box 1). It represented a major reform of economic governance in the EU with the strengthening of the Stability and Growth Pact (SGP) including through introducing an expenditure rule and a debt reduction benchmark. It also set up a new Macroeconomic Imbalances Procedure (MIP) to prevent and correct macroeconomic imbalances. For the euro area, enforcement of fiscal and macroeconomic surveillance procedures became ensured by financial sanctions. It also introduced minimum standards for national fiscal frameworks.

The Six-Pack legislation strengthened the instruments available for the EU's regular multilateral surveillance. In 2012, these instruments were for the first time combined in the European Semester with the aim to ensure that country surveillance is widened to cover macro-economic imbalances and to provide EU-level policy guidance ex ante to ensure that Member States can take it into account in their policy plans.

BOX 1: THE SIX PACK ON ECONOMIC GOVERNANCE

On 16 November 2011, a legislative package made up of six pieces of legislation was adopted by the co-legislators. Four of the legislative measures deal with fiscal issues including a wide-ranging reform of the Stability and Growth Pact, while two measures aim at detecting and addressing macroeconomic imbalances.

Strengthening the Stability and Growth Pact

1) Reinforcing of the preventive arm of the SGP (amending regulation 1466/97): The preventive arm of the SGP aims at ensuring that fiscal policy is conducted in a sustainable manner over the cycle. The monitoring of public finances is therefore based on the new concept of prudent fiscal policy-making that should ensure convergence towards the medium term object. The Commission may issue a warning in case of significant deviation from the adjustment path.

2) Reinforcing the corrective arm of the SGP (amending regulation 1467/97): The corrective arm of the SGP ensures appropriate policy responses to correct excessive deficits. The regulation is amended so that debt developments are followed more closely and put on an equal footing with deficit developments as regards decisions linked to the opening the excessive deficit procedure. Member States whose debt exceeds 60% of GDP should take steps to reduce it at a satisfactory pace.

Establishing national fiscal frameworks

3) A New Directive on requirements for the budgetary framework of the Member States: Since fiscal policy-making is decentralised in the EU, it is essential that the objectives of the SGP are reflected in the national budgetary frameworks, i.e. the set of elements that form the basis of national fiscal governance (national fiscal rules and budgetary procedures). The directive sets out minimum requirements to be followed by Member States.

Preventing and correcting macroeconomic imbalances

4) A New Regulation on the prevention and correction of macroeconomic imbalances: The Regulation introduced a Macroeconomic Imbalances Procedure broadening thus the macroeconomic surveillance in order to avoid harmful macroeconomic imbalances. Member States with macroeconomic imbalances should receive recommendations providing guidance on appropriate policy responses. For Member States with severe macroeconomic imbalances, including imbalances that jeopardise the proper functioning of EMU, an excessive imbalances procedure (EIP) should be initiated.

Strengthening enforcement

5) A New Regulation to strengthen enforcement of budgetary surveillance in the euro area: Changes in both the preventive and corrective arm of the SGP are backed up by a set of gradual financial sanctions for euro-area Member States. As to the preventive arm, an interest-bearing deposit should be the consequence of significant deviations from prudent fiscal policy making. In the corrective arm, a non-interest bearing deposit would apply upon a decision to place a country in excessive deficit. This would be converted into a fine in the event of non-compliance with the recommendation to correct the excessive deficit.

6) A New Regulation on enforcement measures to correct excessive macroeconomic imbalances: If a euro-area Member State fails to act on Council recommendations to address excessive imbalances, an interesting-bearing deposit can be imposed. This deposit can be turned into a fine after continued non-compliance.

As the uncertainty relating to the sovereign debt crisis in some Euro Area Member States continued, the extent and potential consequences of the spillovers between euro area Member States' economic, financial and budgetary situations has become increasingly evident. Based on this rationale and building on the Six-Pack, the European Parliament and the Council adopted two further pieces of legislation aimed at strengthening the surveillance mechanisms in the euro area which entered into force at the end of May 2013.

This so-called Two-Pack on economic governance comprised two proposals: a regulation on the strengthening of economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties with respect to their financial stability in the euro area (i.e. the regulation on enhanced surveillance) and a regulation on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area (see box 2). The rest of this paper focuses on the former of the two regulations mentioned above.

BOX 2: THE TWO-PACK ON ECONOMIC GOVERNANCE

At the beginning of 2013, a legislative package made up of two pieces of legislation was adopted by the co-legislators. Whereas one regulation provides for enhanced surveillance of euro area Member States experiencing severe difficulties regarding their financial stability, the other ensures a further strengthening of fiscal surveillance.

1) A new regulation on enhanced surveillance in the euro area: The regulation implies that Member States experiencing severe difficulties with regard to their financial stability or receiving financial assistance on a precautionary basis would be subject to enhanced surveillance. The new regulation articulates the financial assistance granted outside the framework of the Union (e.g. ESM, EFSF) with the Treaty and creates post-programme surveillance for countries which have received loans or have drawn precautionary financial assistance.

2) A new regulation ensuring deeper fiscal surveillance: the regulation complements the European semester with a common budgetary timeline and complements the procedure for the correction of a Member State's excessive deficit by a closer monitoring of budgetary policies of Member States subject to an excessive deficit in order to secure a timely and durable correction of excessive deficits.

2. OBJECTIVES OF THE NEW REGULATION

As mentioned above, the economic and financial integration of all Member States and in particular those whose currency is the euro, calls for some form of enhanced surveillance to prevent contagion from a Member State experiencing difficulties with respect to its financial stability to the rest of the euro area and, more broadly, to the Union as a whole. This new form of enhanced surveillance originated from the discussions on the guideline on precautionary financial assistance of the European Financial Stability Facility (EFSF, see box 3).

When the operational guidelines for the functioning of the EFSF were elaborated, it was envisaged to establish a new form of enhanced surveillance that would be less intrusive than the monitoring under a macro-economic adjustment programme while still going beyond the regular EU multilateral surveillance under the European Semester. This new form of enhanced surveillance provided the Commission with important new powers including to obtain crucial information (e.g. fiscal data, disaggregated data on financial institutions) and to require stress test exercises or sensitivity analyses in the banking sector.

Following the establishment of the enhanced surveillance in the EFSF guidelines, this new form of surveillance was also introduced into the operational guidelines for the European Stabilisation Mechanism (ESM) and codified in the Two-Pack regulation on enhanced surveillance. The new enhanced surveillance regulation of the Two-Pack contains a number of precise objectives.

First, the regulation makes Member States experiencing severe difficulties with regard to their financial stability or receiving financial assistance on a precautionary basis subject to a new form of enhanced surveillance. A Member State under enhanced surveillance has to take measures to address the sources or potential sources of difficulties. In addition, the Commission can request specific measures to implement the enhanced surveillance. The Commission will monitor regularly in liaison with the ECB and with the relevant European Supervisory Authorities (ESAs) and, where appropriate, the IMF the progress made in implementing all those measures. If the assessment of progress made concludes that further measures are needed and that the financial situation of the Member State has significant adverse effects on the financial stability of the euro area, the Council has the possibility to recommend to the Member State concerned to adopt precautionary corrective measures or prepare a draft macro-economic adjustment programme.

Second, the new regulation aims at articulating the financial assistance granted outside the framework of the Union with the Treaty. During the crisis, new financial stability mechanisms have been established to provide financial assistance to euro area Member States. Mostly, these new mechanisms are based on intergovernmental arrangements (e.g. EFSF and ESM, see box 3). Against that background, the regulation aims at ensuring that there is full consistency between the Union multilateral surveillance framework established by the TFEU and the possible policy conditions attached to financial assistance granted outside the Treaty framework. It sets out notably a clear procedure for preparing and adopting macro-economic adjustment programmes. Because of the wide-encompassing nature of those adjustment programmes, it is foreseen in the new legislation to suspend the monitoring and reporting on the implementation of the stability and growth pact, the application of the excessive imbalance procedure and the monitoring under the European semester. The aim of these suspensions is to ensure consistency and avoid overlaps between these procedures and the policies and monitoring taking place in the context of the relevant macro-economic adjustment programmes.

Third, the regulation provides for post-programme surveillance of countries which have received financial assistance, as long as a minimum of 75% of the financial assistance received has not been repaid. This will help ensuring that the country concerned remains firmly on a safe track, to the benefit of the Member State itself and of its lenders.

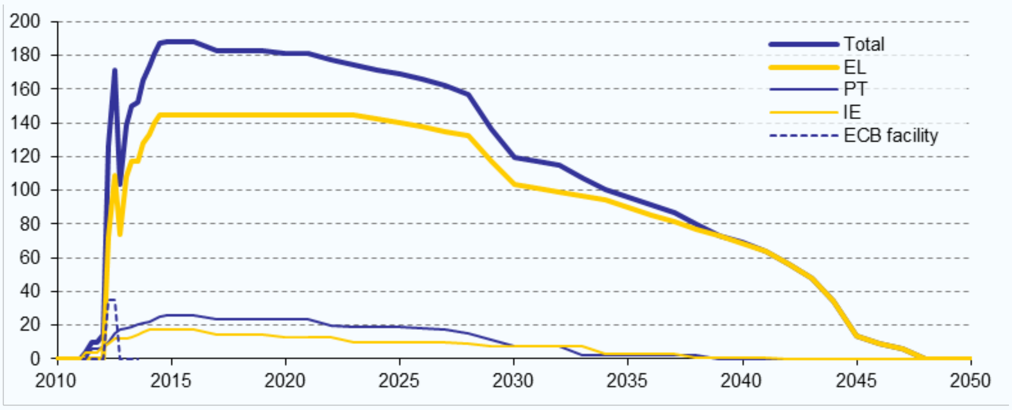
Box 3: Establishing a framework to articulate financial assistance under the EFSF and the ESM within an EU context

The EFSF and ESM have been developed as intergovernmental organisations outside of the EU Treaties. One of the new regulation's key objectives is therefore to establish a decision-making and surveillance framework to articulate the functioning of the EFSF and the ESM with the chapter on economic and monetary union in the TFEU. The intergovernmental nature of these two stability mechanisms requires, as a rule, decisions on financial support to be taken by unanimity thereby rendering their functioning less flexible. This contrasts with the operation of the EFSM which as an EU stability mechanism can take decisions by qualified majority voting. The reference to the EFSM in the legislation was not required to articulate this mechanism within the EU framework but rather to extend the scope of the existing EFSM-legislation to include a number of useful additions including for example the possibility to provide for post-programme surveillance.

European Financial Stability Facility (EFSF): The objective of the EFSF is to preserve the financial stability of the Economic and Monetary Union by providing temporary stability support to euro area Member States. It is a "société anonyme" set up by the euro are Member States under Luxembourg law on 7 June 2010 mandated to provide financial assistance on a temporary basis. It obtains financing by issuing bonds or other debt instruments on the financial markets backed by guarantees of the shareholder Member States. The EFSF has effective guarantees totaling €726 billion that provide a lending capacity of € 440 billion.[1] It is authorized to use a number of financial support instruments linked to appropriate conditionality to serve the needs of a Member State seeking stability support. Graph 1 shows that most of the EFSF funds have been attributed to the second Greek financial support package. Important amounts were also made available for the financial support packages to Ireland and Portugal. It should be noted that the financial support for the Spanish bank recapitalisation was initiated under the EFSF and afterwards transferred to the ESM (see below). Graph 1 also shows that while the disbursements take place during the period of the financial support programmes (see table 1), the repayments are spread over a long period of time.

1 The combined lending capacity of the EFSF and the ESM has been limited to € 700 billion at the Eurogroup meeting of 30 March 2012. It was then agreed that the ESM would finance all new support programmes for the euro area while existing programmes would continue to be financed by the EFSF

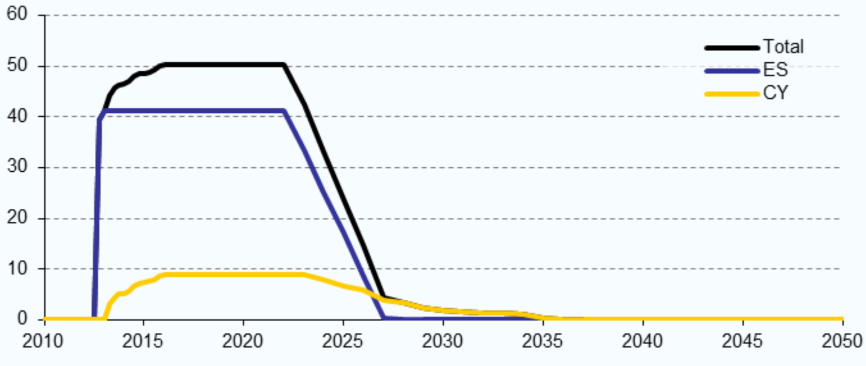
Graph 1: Net outstanding EFSF support [2]



Source: European Commission, EFSF and own calculations (bn euros on Y-axis, years on X-axis)

European Stability Mechanism (ESM): The ESM is a permanent international financial institution that assists in preserving the financial stability of the euro area by providing temporary stability support to euro area Member States. The ESM was inaugurated on 8 October 2012 upon completion of the ratification process of the ESM Treaty. The ESM obtains financing by issuing bonds or other debt instruments. Unlike the EFSF, which was based upon euro area Member State guarantees, the ESM is based on a total subscribed capital of €700 billion provided by euro area Member States. €80 billion of this amount is in the form of paid-in capital of which €32bn has already been provided and with the remaining €620 billion as callable capital. This subscribed capital provides a lending capacity for the ESM of €500 billion. Like the EFSF, the ESM can use a number of financing instruments that are linked to appropriate conditionality. The ESM started its activities with the provision of around €40 billion for the recapitalisation of the Spanish banking sector at the end of 2012. Graph 2 shows that ESM funds have been disbursed for Spain and also for the new financial support programme in Cyprus. Repayments of the financial support are spread out over a long period of time with an initial period that no repayments have to be made.

Graph 2: Net outstanding ESM support [3]



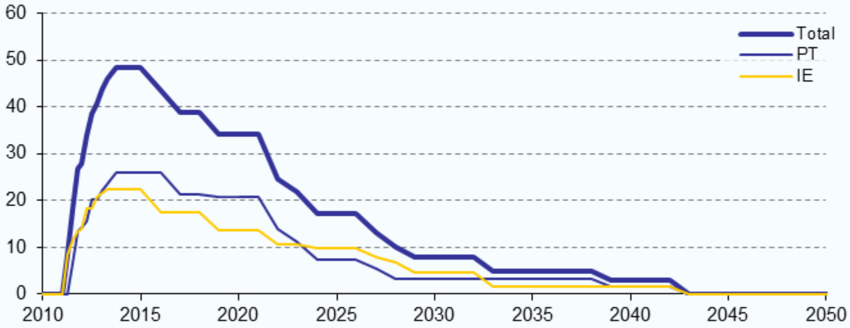
Source: European Commission, ESM and own calculations (bn euros on Y-axis, years on X-axis)

2 This corresponds with the amount of disbursements minus repayments. The amounts disbursed and their maturities are decided on a case by case basis following the quarterly review of the financial assistance. As a consequence, future disbursements and their maturities are estimates based on available info in February 2013.

3 This corresponds with the amount of disbursements minus repayments. The amounts disbursed and their maturities are decided on a case by case basis following the quarterly review of the financial assistance. As a consequence, future disbursements and their maturities are estimates based on available info in May 2013.

European Financial Stabilisation Mechanism (EFSM): In contrast with the EFSF and the ESM, the EFSM is a temporary EU financial stability mechanism based on the EU Treaty. The European Commission, acting on behalf of the EU is empowered to issue debt instruments in the capital markets and to use the resources to provide financial assistance to EU member states experiencing financial stability problems. The EFSM's capacity is determined by the margin available under the own resources decision (i.e. estimated at around €60 billion at the time of its creation). The EFSM is not backed by Member State guarantees or capital but directly by the EU budget. Unlike the EFSF and the ESM that have different financial support instruments at their disposal, the EFSM can only provide loans and credit lines. Graph 3 shows that the EFSM funds were mainly attributed to the Irish and the Portuguese financial support packages. Repayments are scheduled gradually over time.

Graph 3: Net outstanding EFSM support [4]



Source: European Commission and own calculations (bn euros on Y-axis, years on X-axis

3. ESTABLISHING AN EU ENHANCED SURVEILLANCE

3.1 Definition

The new regulation allows the Commission in certain situations to make a Member State subject to enhanced surveillance. This surveillance involves an obligation on the Member State to adopt measures to address the sources of financial instability (see box 4). When developing those measures, the recommendations already addressed by the Council to that Member State should be taken into account. In addition, the Commission can request specific measures to implement the enhanced surveillance: 1) A stress test on banks to be implemented by the ECB/EBA;[5] 2) An assessment of the domestic financial supervisory capacity to be implemented by the ECB/EBA; 3) Any information needed for the monitoring of macro-economic imbalances; 4) A comprehensive independent audit of the public accounts of all sub sectors of the general government; 5) Any information available for the monitoring of the fiscal deficit; 6) Access to disaggregated data on the developments of the financial sector.[6] In addition, Member States must also meet new reporting requirements foreseen for countries under the excessive deficit procedure (EDP) irrespective of the existence of the latter.[7] The measures to address the sources of financial instability constitute together with the specific measures to implement enhanced surveillance the set of policy requirements that are linked to the enhanced surveillance. These policy requirements are expected to be set out in some kind of "Letter of Intent" by the Member State (see box 5).

4 This corresponds with the amount of disbursements minus repayments. The amounts disbursed and their maturities are decided on a case by case basis following the quarterly review of the financial assistance. As a consequence, future disbursements and their maturities are estimates based on available info in February 2013.

5 These activities will be undertaken by the ECB once the SSM enters into force and by the EBA as long as this is not the case.

6 This is only the case for ESR with precautionary financial assistance and not for the regular ESR. In the latter case, the disaggregated data can only be provided through the intermediation of the ECB, in its supervisory capacity, and where appropriate through the relevant ESAs.

7 Irrespective of the existence of an excessive deficit, the Member State subject to enhanced surveillance needs to fulfil some of the new reporting requirements foreseen for countries under EDP as set out in the other two-pack regulation on closer budgetary monitoring.

BOX 4: ARTICLE 3: ENHANCED SURVEILLANCE

Paragraph 1: A Member State subject to enhanced surveillance shall, after consulting and in cooperation with the Commission, acting in liaison with the European Central Bank (ECB), the ESAs, the ESRB and, where appropriate, the IMF, adopt measures aimed at addressing the sources or potential sources of difficulties. In so doing, the Member State shall take into account any recommendations addressed to them under Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of budgetary positions and the surveillance and coordination of economic policies, Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure, or Regulation (EU) No 1176/2011, concerning its national reform programmes and its stability programme […]

Regular review missions are conducted by the Commission in liaison with the ECB and the relevant European Supervisory Authorities (ESAs) and, where appropriate the IMF, to verify progress with implementation of the policy requirements by the Member State concerned. In addition, the Commission is responsible for quarterly reporting to the Economic and Financial Committee (EFC) of the Council and to the Economic and Financial Committee (ECON) of the European Parliament to communicate the findings of the reviews missions. The enhanced surveillance applies in two different situations:

- Regular enhanced surveillance: the Commission makes a euro area Member State subject to enhanced surveillance when it is facing or experiencing severe difficulties with regard to financial stability. This is a situation where no financial support is provided.

- Enhanced surveillance with precautionary financial assistance: the Commission is obliged to make a euro area Member State subject to enhanced surveillance in case a Member State receives precautionary financial assistance from the ESM/EFSF under an Enhanced Conditions Credit Line (ECCL) or a Precautionary Conditioned Credit line (PCCL) when the latter has been drawn.[8]

The objective of precautionary financial assistance is to support sound policies and prevent crisis situations by allowing euro area Members to secure the possibility to access financial assistance before they face major difficulties with raising funds in the capital markets. Precautionary financial assistance aims at helping euro area Members whose economic conditions are still relatively sound to maintain continuous access to market financing.

There are clear policy conditions attached to the precautionary financial assistance depending on the form that the financial assistance takes: a PCCL or an ECCL. These policy conditions are outlined in the Memorandum of Understanding (MoU, see box 5) in line with the relevant ESM/EFSF guidelines on precautionary financial assistance (see annex 1). The MoU is negotiated with the Member State concerned by the Commission on behalf of the ESM/EFSF and in liaison with the ECB and, wherever possible, together with the IMF. In addition to the monitoring of the policy requirements mentioned above, the Commission also monitors the implementation of the policy conditions outlined in the MoU (see box 5).

The Commission will only make a Member State under a PCCL subject to enhanced surveillance when the credit line is effectively drawn. A number of eligibility criteria need to be fulfilled for euro area Member States to obtain access to a PCCL. The PCCL is accessible for euro area Member States where the economic and financial situation is still fundamentally sound and that at the same time fulfil a set of eligibility criteria including: 1) respect for the commitments under the Stability and Growth Pact. An ESM Member under excessive deficit procedure may still access a PCCL, provided it fully abides by the Council decisions and recommendations aimed at ensuring a smooth and accelerated correction of its excessive deficit; 2) a sustainable level of government debt; 3) respect for the commitments under the macroeconomic imbalances procedure. An ESM Member

8 Under the ESM/EFSF financial stability mechanisms, precautionary financial assistance may be provided via a Precautionary Conditioned Credit Line (PCCL) or via an Enhanced Conditions (ECCL) (see annex 1).

under EIP may still access a PCCL, provided it is established that it remains committed to addressing the imbalances identified by the Council; 4) a track record of access to international capital market on reasonable terms; 4) a sustainable external position; 5) absence of any bank solvency problems that would pose systemic threats to the stability of the euro area banking system (see annex 1). The eligibility criteria for accessing a PCCL also need to be respected by the ESM Member after the precautionary assistance is granted. Therefore, they are included as policy conditions in the MoU (see box 5).

Access to an ECCL is open to euro area Member States that do not comply with some of the eligibility criteria required for accessing the PCCL but whose general economic and financial situation remains sound. Like the PCCL, the ECCL is a credit line based on meeting a set of eligibility criteria. In addition, even if no money is drawn, also a set of corrective measures need to be taken aimed at addressing the identified weaknesses and avoiding any future problems regarding market financing while ensuring a continuous respect of the eligibility criteria which were considered met when the credit line was granted. Both the eligibility criteria and the corrective measures are included in the MoU detailing the set of policy conditions attached to the financial assistance (see box 5).

BOX 5: COMPARING EU AND INTERGOVERNMENTAL ARRANGEMENTS

The policy requirements linked to the enhanced surveillance are applied to the Member States within the EU framework while the policy conditions linked to the precautionary financial assistance are applied in an intergovernmental context. This distinction is important because of the different implications of the Commission's monitoring role. Within the EU framework, the Commission's assessment of the overall economic situation and of the implementation of the policy requirements can lead to a recommendation to a Member State to adopt precautionary corrective measures or to prepare a draft macroeconomic adjustment programme. Within the intergovernmental framework, however, the Commission assessment of the respect of the policy conditions can lead to the termination of the financial assistance.

European Union

Enhanced surveillance regime

- Regular enhanced surveillance
  - activated by Commission decision
- Enhanced surveillance with precautionary assistance
  - Activated by granting of precautionary assistance
- *Policy requirements*
  - Measures to address difficulties
  - Specific measures to implement enhanced surveillance
  - All measures included in Member State "Letter of Intent"

Intergovernmental

Precautionary financial assistance

- Enhanced conditions credit line
  - Activated by ESM Board of Governors following Member State request
- Precautionary conditioned credit line (when drawn)
  - Activated by ESM Board of Governors following Member State request
- *Policy conditions*
  - Eligibility criteria
  - Corrective Measures (not for PCCL)
  - Criteria and measures included in Memorandum of Understanding (MoU)

European Commission

- Assessment of economic situation and implementation of measures
- Report to EFC and EP Committee

- Assessment of MoU implementation
- Report to ESM Board of Directors

3.2 Activation

In order to activate the regular enhanced surveillance, the Commission needs first to provide an assessment whether a Member State is experiencing or threatened with serious difficulties with regard to its financial stability that are likely to have adverse spill-over effect on other euro area Member States (see box 6). If this condition is fulfilled, the Commission may unilaterally decide to make the Member State subject to regular enhanced surveillance in accordance with article 2.1 of the new regulation.

In case a Member State is receiving financial assistance on a precautionary basis (i.e. PCCL or ECCL), the Commission is required by the legislation to make the Member State subject to enhanced surveillance in accordance with article 2.3. However, in case of a PCCL, the Commission shall not make the Member State subject to enhanced surveillance as long as the credit line is not drawn (article 2.4).

BOX 6: ARTICLE 2: MEMBER STATES UNDER ENHANCED SURVEILLANCE

Paragraph 1: "The Commission may decide to subject to enhanced surveillance a Member State experiencing or threatened with serious difficulties with respect to its financial stability which are likely to have adverse spill-over effects on other Member States in the euro area. When assessing whether a Member State is threatened with serious difficulties with respect to its financial stability, the Commission shall use among other parameters the alert mechanism established under article 3.1 of regulation (EU) No 1176/2011 of the European Parliament and the Council of 16 November on the prevention and correction of macroeconomic imbalances or, where available, the latest in-depth review. The Commission shall also conduct a comprehensive assessment, taking into account, in particular, the borrowing conditions of that Member State, the repayment profile of its debt obligations, the robustness of its budgetary framework, the long term sustainability of its public finances, the importance of its debt burden and the risk of contagion from severe tensions in its financial sector on its budgetary situation or on the financial sector of other Member States. The Member State concerned shall be given the opportunity to express its views before the Commission adopts its decision to subject that Member State to enhanced surveillance. Every six months, the Commission shall decide whether to prolong the enhanced surveillance of that Member State."

Paragraph 3: "Where a member State is in receipt of financial assistance on a precautionary basis from one or several other Member States or third countries, the EFSM, the ESM, the EFSF or any other relevant international financial institution, such as the IMF, the Commission shall subject that Member State to enhanced surveillance."

Paragraph 4: "Paragraph 3 shall not apply to a Member State receiving financial assistance on a precautionary basis in the form of a credit line which is not conditional on that Member State adopting new policy measures provided that the credit line is not drawn.

As outlined above, a Commission assessment is required as a basis for the Commission decision to make euro area Member States subject to enhanced surveillance. A number of parameters need to be investigated in this comprehensive assessment to check whether the Member State concerned is experiencing or threatened with serious economic difficulties with regard to its financial stability that are likely to have negative spill-over effects on other Member States. When conducting this comprehensive assessment, the legislation requires the Commission explicitly to take a number of parameters into account (article 2.1):

- the parameters of the alert mechanism[9]

9 The Alert Mechanism Report (AMR) is published in the context of the Macroeconomic Imbalances Procedure (MIP). This procedure aims at correcting and preventing damaging macroeconomic imbalances. Based on the AMR, which is the first step in the MIP procedure, the Commission suggests to conduct a number of in-depth reviews (IDRs) to further investigate the developments related to the accumulation and unwinding of macroeconomic imbalances in the EU Member States. If macroeconomic imbalances are considered unproblematic, the Commission will propose that no further steps are needed. If the Commission considers that macroeconomic imbalances or the risk thereof do exist, it will come forward with preventive recommendations

- the latest in-depth review, where available (IDR)[10]
- the borrowing conditions of that Member State
- the repayment profile of its debt obligations
- the robustness of its budgetary framework
- the long term sustainability of its public finances
- the importance of the debt burden,
- the risk of contagion from severe tensions in its financial sector on its fiscal situation or on the financial sector from other Member States.

4. ESTABLISHING AN EU FRAMEWORK FOR MACROECONOMIC ADJUSTMENT PROGRAMMES

When a Member State is under enhanced surveillance, the Commission will monitor regularly, in liaison with the ECB and where appropriate with the IMF, the progress made. If the assessment concludes that further measures are needed and the financial situation of the Member State has significant adverse effects on the financial stability of the euro area, the Council has the possibility to recommend to the Member State concerned to prepare a macro-economic adjustment programme.

4.1. Preparation and adoption of adjustment programmes

Article 7 of the new regulation sets out a clear procedure for preparing and adopting a macro-economic adjustment programme. The draft programme is prepared by the Member State requesting the financial assistance in agreement with the Commission acting in liaison with the ECB and, where appropriate, with the IMF (article 7.1). The draft programme shall be based on an assessment of the sustainability of the government debt prepared by the Commission, in liaison with the ECB, and, where possible, with the IMF. It shall address the specific risks emanating from that Member State for the financial stability of the euro area and shall aim at rapidly re-establishing a sound and sustainable economic and financial situation and restoring the Member State's capacity to finance itself fully on the markets.

The draft programme prepared by the Member State requesting financial assistance within the EU framework is approved in the Council by qualified majority voting on a proposal from the Commission (article 7.2). Within the intergovernmental framework, the memorandum of understanding (MoU) outlining the policy conditions attached to the financial assistance provided in the context of the macroeconomic adjustment programme, is signed by the Commission on behalf of the EFSF/ESM with the Member State requesting financial assistance. The MoU and the Council decision on the adjustment programme need to be aligned and fully consistent. The aim is to avoid situations where a Member State would be requested to abide by policy conditions in the MoU that would deviate from its commitments under the existing EU multilateral surveillance procedures.

It is also ensured in the legislation that the same logic, i.e. to ensure full consistence of the MoU with the Council decision, would apply to financial assistance coming without a macroeconomic adjustment programme (e.g. financial support for the recapitalisation of banks). The legislation therefore includes a reference to the fact that the main policy conditions that are attached to financial

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for the Member State(s) concerned. If the Commission considers that there are severe imbalances in a Member State, the Commission will recommend to the Council to open an excessive imbalances procedure which constitutes the corrective arm of the new procedure.

10 See previous footnote for explanations

assistance would in such cases also be agreed through a Council decision to the extent that the content of those measures falls under the competence of the Union as laid down by the TFEU.

As illustrated by table 1, adjustment programmes are agreed for a typical duration of two or three years. In accordance with article 16, the new regulation applies to the Member States that are currently under a macroeconomic adjustment programme.

Table 1: Planning of macroeconomic adjustment programmes in the euro area

Programme dates - Euro Area		
Programme	**Start**	**End**
Greece (I)	2010 (May)	2012 (Mar)
Ireland	2010 (Dec)	2013 (Dec)
Portugal	2011 (May)	2014 (May)
Greece (II)	2012 (Mar)	2014 (Mar)
Cyprus	2013 (Apr)	2016 (Apr)

Source: European Commission and EFSF

4.2. Monitoring adjustment programmes and non-compliance

The Commission, in liaison with the ECB and, where appropriate, with the IMF will ensure the monitoring of the implementation of the programme. It shall inform the Economic and Financial Committee (EFC) every three months. The Member State concerned shall give its full cooperation to the Commission and the ECB and provide all the information that they deem necessary for the monitoring of the programme.

If the monitoring highlights significant deviations from the macroeconomic adjustment programme, the Council may decide that the Member State concerned does not comply with the policy requirements contained in the programme. This decision would have very significant effects because it would de facto trigger the interruption of the disbursements of the financial assistance of the EFSF/ESM.

A Member State subject to a macroeconomic adjustment programme experiencing insufficient administrative capacity or significant problems in the implementation of its adjustment programme can seek technical assistance from the Commission. The Commission can then establish, for this purpose, a group of experts with Member States and other Union and/or relevant international institutions. Such technical assistance may include the establishment of a resident representative and supporting staff to advise authorities on the adjustment programme implementation. An example of this kind of technical assistance is the Greek Task Force that was established in the context of the Greek adjustment programme.

4.3. Ensuring consistency with other surveillance processes

Macro-economic adjustment programmes have a broad scope in terms of policy fields covered. They cover all policies that can be identified as likely to improve the economic and financial situation. It follows that all attention naturally focuses on the monitoring of the adjustment programme in particular because it conditions the disbursements of the financial assistance. Without compliance with the macroeconomic adjustment programme, the financial assistance cannot be disbursed. As the macroeconomic adjustment programme normally encompasses all relevant policy advice given in the context of the Stability and Growth Pact (SGP), the Macroeconomic Imbalances Procedure (MIP) and the EU semester (see Article 7.1), the new legislation avoids duplication of reporting obligations and overburdening by suspending the reporting and monitoring on the implementation of the SGP, the application of the MIP, the monitoring under the European Semester and the other regulation of the Two-pack on fiscal issues.

4.4. Establishing post-programme surveillance

The new regulation establishes post-programme surveillance.[11] This surveillance arrangement aims at ensuring that the beneficiary remains on the right fiscal track, thus protecting its capacity to repay its debt. The regulation retains a benchmark for the duration of the surveillance. Post-programme surveillance will continue as long as a country has not repaid 75% of its debt. In accordance with article 14 of the new regulation, the 75% rule applies only to the financial assistance received from one or several other Member State(s), the EFSM, the ESM or the EFSF but not for assistance received from the IMF or third countries.

Under the new regulation, the Commission has monitoring powers and has to report twice a year. Where appropriate, it can propose to the Council to recommend to the Member State concerned to adopt corrective measures. The use of reverse qualified majority voting (RMQV, see box 7) as decision-making rule has been inserted in the legislation in relation to decisions to extend the duration of the post-assistance surveillance and also to adopt corrective measures. The Council, on a proposal from the Commission may extend the duration of the post-programme surveillance in case of persisting risks to the financial stability or fiscal sustainability of the Member State concerned. In that case, the proposal of the Commission is automatically adopted unless the Council decides by qualified majority to reject it within 10 days of the Commission's adoption thereof. The same decision-making procedure applies when the Commission proposes to adopt additional corrective measures.

BOX 7: REVERSE QUALIFIED MAJORITY VOTING

The application of reverse qualified majority voting (RQMV) can contribute to swifter decision-making procedures in economic governance. RQMV has been incorporated extensively in the Six Pack legislation on Economic governance for strengthening decision-making in the Stability and Growth Pack and the new Macroeconomic Imbalances Procedure.

In case of RQMV, a Council decision on a Commission recommendation is deemed to be adopted by the Council unless it decides, by qualified majority, to reject the recommendation within ten days of the Commission adopting it. Whereas in the normal QMV procedure a qualified minority suffices to block the decision-making process, in case of RQMV a qualified majority is required thereby substantially increasing the threshold for a coalition of Member States to block decision-making.

The traditional decision-making rule in the Council is qualified majority voting. From a legal perspective, it is only possible to apply reverse QMV in case of implementing measures created by secondary law. It is not allowed for measures directly envisaged in the Treaty itself. For these latter measures, Article 16(3) TEU provides that the Council acts "by a qualified majority except where the Treaties provide otherwise".

5. INCREASING ACCOUNTABILITY AND TRANSPARENCY

5.1. Involvement of the European and national parliaments

Based on article 121(6) of the TFEU, the European Parliament acts as co-legislator of the enhanced surveillance regulation. This specific legislative role of the Parliament should be distinguished from having a direct role in the conduct of economic surveillance. As outlined in article 121(3) TFEU, the responsibility for the monitoring of economic developments in each Member State is entrusted to the Council and the European Commission.

11 In accordance with article 17, Member States that are already under post-programme surveillance on 30 May 2013 shall be subject to the post-programme surveillance rules, conditions and procedures applicable to the financial assistance from which they benefit.

However, the Parliament's role goes beyond a one-off input in the legislative process in holding the executives (i.e. the Commission and the Council) accountable for their conduct of surveillance. In order to play this role, it is foreseen in the new regulation that the European Parliament has to be informed in a timely matter on decision-making and the outcomes of the economic surveillance process. Moreover, the Parliament can organise debates in the context of an economic dialogue with other EU institutions and the Member States. As most of the financial stability decisions are crucial for the Member States because of their important budgetary implications, also provisions have been included in the legislation to increase the involvement of the national parliaments.

BOX 8: KEY ARTICLES ON THE INVOLVEMENT OF PARLIAMENTS

Information flow

The timely flow of information to the European Parliament and the national parliaments is provided for in the legislation in the following articles:

Article 3 on enhanced surveillance: during the enhanced surveillance, the Commission shall communicate every quarter its assessment to the competent committee of the European Parliament.

Article 7 on the adjustment programme: the Commission shall inform orally the Chair and Vice-Chairs of EP economic and monetary affairs committee of the progress made in preparation of the programme and on the conclusions drawn from the monitoring of the programme. However, the information received should be treated as confidential. The macroeconomic adjustment programme should also be made public and the conclusions of the debt sustainability analysis should be annexed to it.

Article 14 on post-programme surveillance: the Commission shall communicate every semester its assessment to the competent committee of the European Parliament and to the parliament of the Member State concerned.

Economic dialogue

In addition to receiving timely information, the Parliament will also be able to organise a dialogue with regard to the results of the enhanced and post-programme surveillance process. This is set out in the following articles:

Article 3 on enhanced surveillance:

In case a recommendation to adopt a precautionary or macro-economic adjustment programme has been made: 1) the competent committee of the EP may offer the opportunity to the Member State concerned and to the Commission to participate in an exchange of views; 2) the representatives of the Commission may be invited by the parliament of the Member State concerned to participate to an exchange of views. The Council shall in due time inform the relevant committee of the European Parliament about the content of the recommendation.

During the course of the enhanced surveillance, the competent committee of the European Parliament and the national parliament concerned may invite representatives of the IMF, the ECB and the Commission to participate in an economic dialogue.

Article 7 on the adjustment programme: the competent committee of the European Parliament may offer the opportunity to the Member State concerned and the Commission to participate in an exchange of views on the progress made in the implementation of the adjustment programme. Representatives of the Commission may also be invited by the national parliament of the Member State concerned to an exchange of views on the progress made with the implementation of its macroeconomic adjustment programme.

Article 14 on post-programme surveillance: the competent committee of the European Parliament may offer the opportunity to the Member State concerned to participate in an exchange of views on the progress made under the post-assistance surveillance. The parliament of the Member State concerned may also invite the Commission to participate in an exchange of views on the post-assistance surveillance.

5.2. Involvement of stakeholders

A number of references have been introduced in the legislation to ensure that the Member States concerned shall seek the views of social partners as well as relevant civil society organisations when preparing a draft macroeconomic adjustment programme (article 8). The aim is to contribute to building a consensus over the content of the programme.

The role of social partners is further strengthened in the legislation by a number of specific references in article 1.4. In this article is specified that when applying the regulation, article 152 of the TFEU on the role of social partners in the Union shall be fully observed. Moreover, the existing practices and article 28 of the Charter of Fundamental Rights of the EU on the right of collective bargaining and action shall be taken into account.

6. UPDATING THE EU GOVERNANCE FRAMEWORK FOR NON-EURO AREA MEMBER STATES

Following the adoption of the Two-Pack and in particular the new regulation on enhanced surveillance for the euro area, it has become necessary to also update the existing economic governance framework for the non-euro area Member States. In particular "Regulation (EC) no 332/2002 establishing a facility providing medium-term financial assistance for Member States' balances of payments" needs to be updated. The existing regulation aims at easing the external financing constraint of Member States that are experiencing or are seriously threatened by difficulties in their balance of payment and applies only to non-euro area Member States. On the 22nd of June 2012, the European Commission has come forward with a proposal to revise this regulation.[12]

This revision will allow updating the existing Regulation in the light of the recent reinforcement of economic governance and in particular the entry into force of the new regulation on enhanced surveillance with a view to ensuring a larger level playing field between euro area and non-euro area Member States. For that reason, an effort is undertaken in the revision to ensure the alignment of the revised regulation with the content as well as number of procedural steps that have been outlined in the new enhanced surveillance regulation. For example, also the new revised regulation will include a simplification of the monitoring of programme countries whereby the reporting and monitoring under the SGP, the application of the MIP and the monitoring under the EU semester are suspended for the duration of the programme.

In the context of the economic and financial crisis, new assistance tools have been created for euro area Member States with the establishment of the European Financial Stability Facility (EFSF), the European Financial Stabilisation Mechanism (EFSM) and the European Stability Mechanism (ESM). However, the existing Regulation for non-euro area Member States has not kept pace with these developments. In particular, these financial stability mechanisms have established new precautionary instruments to provide financial assistance to the euro area Member States. The revision will allow non-euro Member States to have similar financial instruments at their disposal.

12 Proposal for a Council Regulation establishing a facility for providing financial assistance for Member States whose currency is not the euro. COM(2012)336.

ANNEX 1:

European Stability Mechanism (ESM)
Guideline on Precautionary Financial Assistance[13]

Article 1

Aim and scope

The objective of precautionary financial assistance is to support sound policies and prevent crisis situations by allowing ESM Members to secure the possibility to access ESM assistance before they face major difficulties raising funds in the capital markets. Precautionary financial assistance aims at helping ESM Members whose economic conditions are still sound to maintain continuous access to market financing by reinforcing the credibility of their macroeconomic performance while ensuring an adequate safety-net.

Article 2

Types of precautionary financial assistance

1. Precautionary financial assistance may be provided via a Precautionary Conditioned Credit Line (PCCL) or via an Enhanced Conditions Credit Line (ECCL). A PCCL and an ECCL credit line can be drawn via a loan or a primary market purchase. Both types of credit line shall have an initial availability period of one year and shall be renewable twice, each time for six months.

2. Access to a PCCL shall be based on pre-established conditions and limited to ESM Members where the economic and financial situation is still fundamentally sound. A global assessment shall be made on whether a potential beneficiary ESM Member qualifies for a PCCL, using as a basis the following criteria:

   (a) Respect of the commitments under the stability and growth pact. An ESM Member under excessive deficit procedure may still access a PCCL, provided it fully abides by the Council decisions and recommendations aimed at ensuring a smooth and accelerated correction of its excessive deficit.

   (b) A sustainable general government debt.

   (c) Respect of the commitments under the excessive imbalance procedure (EIP). An ESM Member under EIP may still access a PCCL, provided it is established that it remains committed to addressing the imbalances identified by the Council.

   (d) A track record of access to international capital markets on reasonable terms.

   (e) A sustainable external position.

   (f) The absence of bank solvency problems that would pose systemic threats to the stability of the euro area banking system.

3. The beneficiary ESM Member shall ensure a continuous respect of the eligibility criteria after the PCCL is granted, which shall be monitored by the European Commission, in liaison with the ECB.

4. Access to an ECCL shall be open to ESM Members that do not comply with some of the eligibility criteria required for accessing a PCCL but whose general economic and financial situation remains sound. The beneficiary ESM Member shall, after consultation of the European Commission and of the ECB, adopt corrective measures aimed at addressing the above-mentioned weaknesses and avoiding any future problems in respect of access to market

[13] As requested by the Treaty establishing the European Stability Mechanism, the ESM Board of Directors adopted detailed guidelines on the modalities for implementing the various ESM financial assistance instruments including the precautionary financial assistance instrument.

financing, while ensuring a continuous respect of the eligibility criteria which were considered met when the credit line was granted. The monitoring of the respect of the eligibility criteria and of any corrective measures shall be ensured by the European Commission, in liaison with the ECB, in line with the provisions foreseen in Article 5.

Article 3

Procedures for granting precautionary financial assistance

In order to benefit from an ESM credit line, the request by the ESM Member shall follow the following steps:

1. An ESM Member may address a request for precautionary financial assistance to the Chairperson of the ESM Board of Governors.[14] On receipt of such a request, the Chairperson of the Board of Governors shall entrust the European Commission, in liaison with the ECB, with the following tasks:

   (a) to assess the existence of a risk to the financial stability of the euro area as a whole or of its Member States;

   (b) to assess whether general government debt is sustainable. Wherever appropriate and possible, such an assessment shall be conducted together with the IMF;

   (c) to assess the actual or potential financing needs of the ESM Member concerned.

2. In addition, the European Commission shall be requested to, in liaison with the ECB, assess whether the ESM Member concerned meets the conditions for accessing a PCCL or an ECCL as set out in Article 2(2) and 2(4), respectively.

3. On the basis of the request of the ESM Member and the assessments referred to in paragraphs 1 and 2, the Managing Director shall prepare a proposal for financial assistance consistent with the aforementioned assessment and taking into account the financial situation of the ESM. On this basis, the Board of Governors may decide to grant, in principle, precautionary financial assistance to the ESM Member concerned in the form of a PCCL or an ECCL as well as its amount and duration in accordance with Article 13(2) of the ESM Treaty.

4. If a decision is adopted pursuant to paragraph 3, the Board of Governors shall, in accordance with article 13(3) of the ESM Treaty, entrust:

   a. The European Commission – in liaison with the ECB and, wherever possible, together with the IMF – with the task of negotiating, with the ESM Member concerned, an MoU detailing the policy conditions attached to the precautionary financial assistance.

   b. The Managing Director of the ESM, with the task of preparing, in parallel, a proposal for a financial assistance facility agreement (FFA), detailing the financial terms and conditions of the precautionary financial assistance, to be adopted by the Board of Governors.

5. The European Commission shall sign the MoU on behalf of the ESM, subject to compliance with the conditions set out in paragraph 4(a) and approval by the Board of Governors. The Managing Director of the ESM shall sign the financial assistance facility agreement, subject to approval by the Board of Directors.

Article 4

Activating a credit line

1. The activation of the credit line shall be at the initiative of the beneficiary ESM Member. The Member shall have the flexibility to request the draw-down of funds at any time during the

[14] This should be done taking into account Recital 8 of the ESM Treaty.

availability period of the credit line according to the agreed terms. It shall inform the ESM at least a week in advance of its intention to draw funds, depending on the intended size.

2. The maximum size of a tranche or primary market purchase shall be set in the initial decision to grant a credit line.

Article 5

Enhanced surveillance

1. Where an ECCL is granted or a PCCL drawn, the ESM Member shall be subject to enhanced surveillance by the European Commission for the availability period of the credit line. An ESM Member under enhanced surveillance shall, in consultation and cooperation with the European Commission, acting in liaison with the ECB, the European Supervisory Authorities (ESA) and the European Systemic Risk Board (ESRB), and where appropriate the IMF, adopt measures aimed at addressing the sources or potential sources of difficulties.

2. On a request from the European Commission, the ESM Member under enhanced surveillance shall:

   a) Provide the ESM with all necessary information required for the execution of its lending activity and related risk management, such as monthly information regarding its financial condition, cash balance and other key information that would usually be provided for facilities of this type and any of the information mentioned in points (b) to (f);

   b) Communicate to the European Commission, the ECB, and the relevant ESA(s) at the requested frequency disaggregated information on developments in its financial system. The European Commission, the ECB, and the relevant ESA(s) shall preserve the confidentiality of the disaggregated data received;

   c) Carry out, under the supervision of the relevant ESA(s), stress test exercises or sensitivity analyses as necessary to assess the resilience of the financial sector to various macroeconomic and financial shocks, as specified by the European Commission and the ECB in liaison with the relevant ESA(s) and the ESRB, and share the detailed results with them;

   d) Be subject to regular assessments of its supervisory capacities over the banking sector in the framework of a specific peer review carried out by the relevant ESA(s);

   e) Carry out and report on a comprehensive independent audit of the accounts of the general government conducted in coordination with national supreme audit institutions, aiming at assessing the reliability, completeness and accuracy of these public accounts for the purposes of the excessive deficit procedure. In this context, the European Commission (Eurostat) shall assess the quality of data reported by the beneficiary ESM Member in accordance with Regulation (EC) No 679/2010;

   f) Where appropriate, provide additional information for the purposes of monitoring the progress towards the correction of the excessive deficit.

3. The European Commission shall conduct, in liaison with the ECB and the ESA(s) as needed, and where appropriate the IMF, regular review missions in the ESM Member under surveillance to verify the progresses made in the implementation of the adopted measures. It shall communicate, every quarter, its findings to the Board of Directors and assess notably whether further policy measures are needed.

Article 6

Warning system

The ESM shall establish an appropriate warning system, in accordance with Article 13(6) of the ESM Treaty, to ensure that the ESM receives any repayments due by the ESM Member under the stability support in a timely manner.

Article 7

Re-examination of the adequacy of the precautionary financial assistance

1. The adequacy of the precautionary financial assistance shall be assessed on a proposal from the ESM Managing Director based on the findings referred to in Article 5(3) or, where a PCCL has been granted but not drawn, the results of the regular EU multilateral surveillance procedure. The Board of Directors shall decide on the basis of this proposal whether the credit line should be maintained.

2. In case the beneficiary ESM Member deviates from its policy conditions or if those commitments have become clearly inadequate to resolve the threat of financial disturbance, the Board of Governors may decide to close the credit line. The beneficiary ESM Member would then be expected to request a regular stability support, with a full macroeconomic adjustment programme, following the procedure applicable to it.

After the beneficiary ESM Member has drawn funds for the first time via a loan or a primary market purchase, the Board of Directors shall decide on a proposal from the Managing Director and based on an assessment conducted by the European Commission, in liaison with the ECB, whether the credit line continues to be adequate or whether another form of financial assistance is needed.

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