European Commission - Press release

State aid: Commission gives green light to new synthetic securitisation product under the European Guarantee Fund to further support SMEs affected by the coronavirus outbreak in 22 Member States

Brussels, 16 August 2021

The European Commission approved, under EU State aid rules, the introduction of a new product in the the form of guarantees on synthetic securitisation tranches under the European Guarantee Fund managed by the European Investment Bank Group (consisting of the European Investment Bank, "EIB" and the European Investment Fund, "EIF") to support companies affected by the coronavirus outbreak in the 22 participating Member States. With an envisaged dedicated budget of €1.4 billion, the new product is expected to mobilise at least €13 billion of new lending to small and medium-size enterprises (SMEs) affected by the outbreak. This is a significant contribution to the overall target for the European Guarantee Fund to mobilise up to €200 billion of additional financing in the 22 participating Member States.

Executive Vice-President Margrethe **Vestager**, in charge of competition policy, said: *"This new product will contribute significantly to the European Guarantee Fund's overall target to mobilise up to €200 billion for the European economy, by helping to originate at least €13 billion of new lending by financial intermediaries to SMEs, which have been severely hit by the coronavirus outbreak. The European Guarantee Fund, which is administered by the European Investment Bank Group, brings together support by 22 Member States and complements the national support schemes. We continue to work closely with Member States and with the other European institutions to find workable solutions to mitigate the economic impact of the coronavirus outbreak, whilst preserving the level playing field in the Single Market."*

Executive Vice-President for an Economy that Works for People, Valdis **Dombrovskis**, said: *"We continue pursuing our goal to support EU businesses, especially SMEs, weather the crisis. Thanks to the new synthetic securitisation product under the European Guarantee Fund, further financing in the form of new lending will flow to EU businesses that really need it. The European Guarantee Fund is the third of the safety nets agreed by the Council. We encourage Member States to continue using all three crisis tools to the maximum to support their workers and businesses."*

In April 2020, the European Council endorsed the establishment of a European Guarantee Fund (the "Fund") under the management of the EIB Group, as part of the overall EU response to the coronavirus outbreak. It is one of the three safety nets agreed by the European Council to mitigate the economic impact on workers, businesses and countries. So far, the EIB and EIF have approved a total of €17.8 billion worth of projects under the Fund, which are expected to lead to some €143.2 billion in total mobilised investments.

Following the notification by the participating Member States, on 14 December 2020, the Commission authorised, under EU State aid rules, the establishment of the Fund, the contributions to the Fund by, at the time, 21 participating Member States and the downstream interventions by in the form of guarantees on debt instruments (such as loans) under EU State aid rules. On 16 April 2021, the Commission authorised, under EU State aid rules, the participation to the Fund by Slovenia and its relative contribution in the form of guarantees on debt instruments under EU State aid rules. The Fund also provides guarantees on equity instruments, which are however outside of the scope of the December 2020 decision.

The new product under the Fund

The 22 participating Member States notified to the Commission, under EU State aid rules, the introduction of a new synthetic securitisation product to be implemented by the Fund. The complete notification, with the formal notification from the last participating Member State, was received on 9 August 2021.

Synthetic securitisation is a financial technique whereby an originating entity (e.g. a bank) identifies a pool of existing assets (e.g. a portfolio of loans) which it holds on its balance sheet, creates tranches with different risk/reward profiles against that pool, and subsequently transfers a part of the risk stemming from the pool by buying protection on a specific tranche (for example by getting a guarantee on the relevant risk tranche) from a protection seller. In return, the originating entity pays a premium to the protection seller.

Under the new instrument, the EIB Group, acting as a protection seller, will provide a financial intermediary with protection in the form of a guarantee on a specific risk tranche for a portfolio of existing assets, under the condition that the portfolio in question fulfils certain requirements in terms of maximum size and contains only performing exposures. In exchange for providing the guarantee, the EIB Group will charge the financial intermediary with a subsidised guarantee fee.

The financial intermediary will have to pass on the financial advantage stemming from the transaction, to the maximum extent possible, to the ultimate beneficiaries of the new instrument, i.e. to SMEs that will receive new loans. The financial intermediary will be obliged to use regulatory capital freed up thanks to the Fund's guarantee to build up a new pool of assets (e.g. a portfolio of loans) to meet the liquidity needs of SMEs, while complying with certain conditions in terms of riskiness, volume and maturity of the new loans. On top of this obligation, the terms of each transaction will also provide incentives to the financial intermediary to generate new lending.

The purpose of the new product is to help originate new, riskier lending by financial intermediaries to SMEs. The aim is to free up lending capacity of financial intermediaries and prevent that their resources are shifted towards lower-risk assets instead of loans to SMEs. The risk of such a shift exists given the economic crisis caused by the coronavirus pandemic, which is expected to lead to downgrades in the financial intermediaries' existing loan books and therefore to increasing demands for those intermediaries' regulatory capital.

The Commission's State aid assessment

The Commission assessed the new synthetic securitisation product under Article 107(3)(b) of the Treaty on the Functioning of the European Union (TFEU), which enables the Commission to approve State aid measures implemented by Member States to remedy a serious disturbance in their economy.

The Commission concluded that the synthetic securitisation product will contribute to managing the economic impact of the coronavirus in the 22 participating Members States. It is necessary, appropriate and proportionate to remedy a serious disturbance in the economy, in line with Article 107(3)(b) TFEU.

On this basis, the Commission approved the Fund's guarantees on synthetic securitisation tranches under EU State aid rules.

Background

The Fund aims at addressing in a coordinated manner the financing needs of European companies (mainly SMEs) that are expected to be viable in the long-term, but are facing difficulties in the current crisis across Europe. By pooling credit risk across all of the participating Member States, the overall impact of the Fund can be maximised, whilst the average cost of the Fund is significantly reduced compared to national schemes.

All Member States have the option to participate in the Fund. So far, 22 Member States decided to participate and jointly guarantee the Fund's operations. They take part in the governance of the Fund through the so-called Contributors Committee, which decides on the use of guarantee. The participating Member States are Austria, Belgium, Bulgaria, Croatia, Cyprus, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Lithuania, Luxemburg, Malta, the Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain and Sweden.

In case of particularly severe economic situations, such as the one currently faced by all Member States due to the continuing coronavirus outbreak, EU State aid rules allow Member States to grant support to remedy a serious disturbance to their economy. This is foreseen by Article 107(3)(b) TFEU.

On 19 March 2020, the Commission has adopted a State aid Temporary Framework to enable Member States to use the full flexibility foreseen under State aid rules to support the economy in the context of the coronavirus outbreak.

The Temporary Framework complements the many other possibilities already available to Member States to mitigate the socio-economic impact of the coronavirus outbreak, in line with EU State aid rules. On 13 March 2020, the Commission adopted a Communication on a Coordinated economic response to the COVID-19 outbreak setting out these possibilities. For example, Member States can make generally applicable changes in favour of businesses (e.g. deferring taxes, or subsidising short-time work across all sectors), which fall outside State Aid rules. They can also grant compensation to companies for damage suffered due to and directly caused by the coronavirus outbreak.

The Temporary Framework will be in place until the end of December 2021. With a view to ensuring legal certainty, the Commission will assess before this date if it needs to be extended.

The non-confidential version of the decision will be made available under the case numbers SA.63422-SA.63443 in the State aid register on the Commission's competition website once any confidentiality issues have been resolved.

More information on the Temporary Framework and other action the Commission has taken to address the economic impact of the coronavirus pandemic can be found here.

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