

Luxembourg, 7 June 2010

Terms of reference of the Eurogroup

European Financial Stability Facility

In line with the decisions taken on 9 May within the framework of the Ecofin Council to safeguard financial stability in Europe, Ministers have established the European Financial Stability Facility as a limited liability company under Luxembourg law (*Société Anonyme*). To this end, they have agreed on the Articles of Association of the EFSF and on the Framework Agreement between euro area Member States and the EFSF.

The objective of the EFSF is to collect funds and provide loans in conjunction with the IMF to cover the financing needs of euro area Member States in difficulty, subject to strict policy conditionality. Euro area Member States will provide guarantees for EFSF issuance up to a total of € 440 billion on a pro rata basis.

While the EFSF has been incorporated with Luxembourg as its sole shareholder to expedite its creation, all Member States of the euro area reconfirm their commitment to enter the capital of the EFSF as soon as possible. National legal procedures to participate in the Facility are well on track. The shareholding of each Member State in the EFSF will correspond to its respective share in the paid-up capital of the ECB.

The obligation of euro-area Member States to issue guarantees for the EFSF debt instruments will enter into force as soon as a critical mass of Member States, representing 90% of shareholding, has completed the relevant national parliamentary procedures. The European Financial Stability Mechanism managed by the Commission is already available to cover urgent financing needs, if necessary.

Ministers have agreed on a number of measures to ensure the best possible credit quality and rating for the debt instruments issued by EFSF, such as a 120% guarantee of each Member State's pro rata share for each individual bond issue and the constitution, when loans are made, of a cash reserve to provide an additional cushion or cash buffer for the operation of the EFSF. Member States have agreed that other mechanisms would be adopted if needed to further enhance the creditworthiness of the bonds or debt securities issued by the EFSF.

Ministers have also agreed to nominate their Eurogroup Working Group member (full or alternate) as director in the EFSF board to ensure close coordination between EFSF and the Eurogroup. A CEO will be appointed shortly.

The EIB has confirmed its willingness to provide treasury management services and administrative support to the EFSF through a service level contract.

Ministers have also confirmed that the Commission is tasked to support, together with the EIB, the setting up of the EFSF and to contribute to its functioning. The Commission will ensure consistency between EFSF operations and other operations of assistance to euro area Member States. The Commission, in liaison with the ECB, is also tasked to negotiate the policy conditions attached to any loans provided by the EFSF and to assess compliance with these conditions.