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STEERING BOARD

SME Window - NPI

**EFSI multi-country Investment Platform for SMEs through
securitisation**

Adopted by Written Procedure with expiry date 13/12/2016

Proposal by the EIF

Questions concerning this note should be referred to
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SME Window - NPI
EFSI multi-country Investment Platform for SMEs securitisation

Based on the “Rules applicable to the EFSI operations with Investment Platforms and National Promotional Banks or Institutions”, approved by the EFSI Steering Board in February 2016 (SB/10/16), the purpose of this note is to request approval from the EFSI Steering Board jointly with the EFSI Managing Director, after consultation with the EFSI Investment Committee, for the NPI EFSI multi-country Investment Platform for SMEs¹ through securitisation (hereinafter “the IP”). The IP is expected to serve as an arrangement by which National Promotional Institutions (hereinafter “NPIs”) and EIF will cooperate in the context of the new securitisation instrument foreseen under the SME Window (“SMEW”) of EFSI (“EFSI SMEW”) (and/or any other future securitisation initiatives under EFSI). The new securitisation instrument under EFSI SMEW is expected to be presented to the EFSI governing bodies and EIF Board for approval in Q1 2017, with the next amendment of the EFSI Agreement (as defined below) foreseen thereafter.

Such IP structure would allow NPIs to:

- Increase their respective risk bearing capacity under the Investment Plan for Europe (“IPE”);
- Mobilise, in conjunction with EFSI SMEW resources, additional resources which would then qualify as national EFSI contributions.

Since the launch of the IPE, securitisation has been identified as a product to be enhanced under EFSI. EIF has engaged NPIs in a dedicated working group that has developed a cooperation and risk sharing initiative for securitisation transactions, formally launched on 11 July 2016 as “ENSI – EIF NPIs’ Securitisation Initiative”.

Cassa Depositi e Prestiti (“CDP”), as active member of such initiative, has requested to have a formally approved IP under EFSI.

Formal approval of the IP under EFSI is a pre-requisite for CDP to mobilise national resources (from the Ministry of Finance - “MoF”) dedicated to CDP’s co-investments under EFSI and within the framework of the IP. A total budget of Eur 200 million from MoF is available for 2016.

In order to ensure an optimised budgetary cycle, the creation of the IP is envisaged by the end of 2016.

1. Background

The Regulation (EU) 2015/1017 of the European Parliament and of the Council dated 25 June 2015 on the European Fund for Strategic Investments (“the EFSI Regulation”) and the “Agreement on the Management of the European Fund for Strategic Investments and on the granting of the EU Guarantee” (“the EFSI Agreement”) - signed between the European Union (“EU”) and the European Investment Bank (“EIB”) on 22 July 2015 - contemplate the creation of investment platforms to play a prominent role in the support of EFSI objectives.

The EFSI Agreement defines investment platform as “a special purpose vehicle, managed account, contract-based co-financing or risk-sharing arrangement or arrangement established by any other

¹ As defined under the EFSI SMEW

means by which entities channel a financial contribution in order to finance a number of investment projects, and which may include:

- (i) National or sub-national platforms that group together several investment projects on the territory of a given Member State;
- (ii) Multi-country or regional platforms that group together partners from several Member States or third countries interested in projects in a given geographic area; and
- (iii) Thematic platforms that group together investment projects in a given sector”.

2. Overview of the Proposal

CDP has been the first NPI to express an interest to join the IP.

CDP is the NPI supporting Italy’s growth investing in long-term projects as a “market operator”, promoting Italy with a particular focus on social and sustainable growth, leveraging domestic and international financial resources, as a complement to the banking system, offering a timely response to market limits with a systemic and countercyclical role.

CDP has been recognised as a NPI by the 2016 Italian Budget Law and can use part of its own resources in addition to third-party’s resources to contribute to the realisation of EFSI objectives.

CDP’s support to SMEs is currently provided through funding schemes available to all banks operating in Italy. Since 2009, through these schemes, and in cooperation with intermediary banks, CDP has provided approximately EUR 21.5bn of financing on-lent to more than 100,000 SMEs. During the first 6 months of 2016, CDP has disbursed approximately EUR 1.4bn for the origination of SME loans through its intermediary banks.

In order to allow CDP to increase its risk bearing capacity under EFSI, the Italian Stability Law 2016 approved an EFSI-like guarantee scheme for CDP in its capacity of NPI when participating in financing transactions within IPs formally approved under EFSI.

Secondary legislation - recently approved by the Italian MoF - requires formal EFSI approval of relevant bodies for each platform proposal submitted by CDP as a pre-requisite in order to activate the national guarantee to the benefit of CDP.

Therefore, EIF is formally submitting this proposal to the EFSI Investment Committee (for consultation) and Steering Board and Managing Director (for approval) for the creation of an IP.

The IP would allow the combination of various financial contributions:

- (i) NPIs’ own resources,
- (ii) EFSI SMEW resources, and
- (iii) national resources dedicated to EFSI IPs, such as MoF in case of CDP’s participation,

in order to boost the leverage and impact under the SMEW.

The participation of CDP and other potential NPIs in securitisation transactions intends to address market failure and improve access to finance for SMEs. With its participation in securitisation transactions in the context of EFSI, CDP and the other potential NPIs will intend to achieve a higher impact and leverage with the EFSI funds in accordance with the EFSI objectives.

3. Securitisation instrument

As of the date of this note, the features of the securitisation instrument foreseen under the SMEW are still in the process of being finalised. Therefore the details disclosed in this section are indicative only, non-exhaustive and subject to further amendments. The features of the securitisation instrument, including, without limitation, the composition of the securitised portfolio, additionality and state aid considerations will be addressed in the product description of the securitisation instrument (Schedule VII, Annex 1 of the EFSI Agreement).

The objective of such instrument is to release regulatory capital and/or provide new funding sources to originators in order to stimulate finance to SMEs and Small Mid-Caps. This shall be achieved by providing guarantees to originators, combined with an undertaking from the relevant originator to build up an additional portfolio of debt finance to eligible SMEs or Small Mid-Caps.

The securitisation instrument is expected to benefit from an EU Contribution under the EFSI SMEW equal to approx. Eur 100m, provided to EIF by EIB and guaranteed to EIB by EU under the EFSI Agreement. No specific pre-allocation in terms of countries is foreseen.

4. Structure

The proposed IP is expected to serve as an arrangement by which IP members ("IPMs") and EIF will cooperate in the context of the new securitisation instrument foreseen under EFSI SMEW (and/or any other future securitisation initiatives under EFSI).

The various possible forms of participation of the IPMs and EIF in securitisation transactions in the context of the securitisation instrument foreseen under EFSI SMEW and/or any other future securitisation initiatives under EFSI will be set out in the relevant securitisation instrument/initiative.

5. Principles applying to the IP

The IP would facilitate cooperation between EIF and IPMs under EFSI SMEW based on the following principles/characteristics:

- Addressing market failures². Credit protections and especially guarantees on debt finance to SMEs or Small Mid-Caps continue to be the most widely used and effective instrument to ease SME access to finance and address related market failures.
- Allowing crowd-in of additional resources. Thanks to the IP structure, the proposal would allow to crowd-in additional funds from:
 - o National authorities/ministries,
 - o Potentially NPI's own resources,
 - o Financial institutions which would retain part of the risk exposure related to SMEs or Small Mid-Caps.

6. Geographical scope

Multi-country IP (EU Member States).

² EIF Working Paper 2016/35 - European Small Business Finance Outlook, June 2016
http://www.eif.org/news_centre/publications/EIF_Working_Paper_2016_35.htm

7. Thematic scope

The IP is a thematic investment platform with mono-sector focus on SMEs and Small Mid-Caps.

8. Type of products

Under the IP, any investment by an IPM and the EIF in a securitisation transaction in the context of the securitisation instrument foreseen under EFSI SMEW and/or any other future securitisation initiatives under EFSI could be covered. Such investment will typically be combined with an undertaking from the relevant originator to build up an additional portfolio of debt finance to eligible SMEs or Small Mid-Caps, as further stipulated in the securitisation instrument product description (Schedule VII, Annex 1 of the EFSI Agreement) or any other future securitisation initiatives under EFSI. To the extent applicable, state aid rules shall be taken into account.

9. Type of EFSI financing and proportion of the total investment platform provided

No EFSI SMEW resources are requested for approval by the EFSI Steering Board and Managing Director to set up the proposed IP.

The expected leverage provided in respect of the EFSI contribution under the securitisation instrument is expected to make a positive contribution to the target leverage of EFSI.

10. Role of EIF

EIF will act as the coordinator of the IP, as may be further specified in the securitisation instrument under EFSI SMEW or any other future securitisation initiatives under EFSI, as applicable.

11. Other non-EFSI providers of funding

The originators will be required to comply with the risk retention requirements stipulated in the CRR/CRD IV as by retaining an interest in the securitisation transaction, as further stipulated in the securitisation instrument product description or any other future securitisation initiatives under EFSI.

12. Legal form

No new legal entity or vehicle would be foreseen for the IP itself at this stage in relation to the securitisation instrument under the EFSI SMEW. However, the participating stakeholders would still remain free to constitute the necessary structure among them at any point of the life of the IP, if needed.

13. Approval process

The note related to the creation of the IP is submitted to the EFSI Investment Committee for consultation and to the EFSI Steering Board and EFSI Managing Director for approval.

14. Reporting, Accountability and Evaluation, anti-fraud and excluded activities:

All relevant requirements will be specified in the securitisation instrument under EFSI SMEW or any other future securitisation initiatives under EFSI, as applicable.

15. Conclusion

The IP's overall objective is to coordinate the EIF-NPIs joint efforts to stimulate new SME lending via the capital markets and to facilitate the mobilisation of additional national resources for the same purpose. The IP builds upon EIF's successful SME securitisation business and aims to streamline the collaboration with NPIs in this field.

Further EFSI arrangements may be added under the proposed IP, if approved, with a view of mobilising further national resources or NPI's own resources dedicated to EFSI IPs to provide eligible SMEs and Small Mid-Caps with additional debt finance.

Other NPIs apart from CDP are expected to join the IP.