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From:	General Secretariat of the Council
To:	Ad Hoc Working Party on EFSI
Subject:	Commission Services Non-Paper on Remuneration and cost coverage under the proposed EFSI Regulation Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the European Fund for Strategic Investments and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013

Delegations will find attached the above non-paper.

Commission Services Non-Paper

Remuneration and cost coverage under the proposed EFSI Regulation

Under the proposal, the Union, just like the European Investment Bank, will be entitled to receive investment proceeds. The EIB will be enabled to provide funding to eligible projects with part of the risk covered by the Union. In line with standing EIB practice, the Bank will collect remuneration for these investments. Article 2(1)(e) of the EFSI Regulation specifies that remuneration for risk-sharing is to be shared amongst contributors "in proportion with their respective risk share".

The proposal stipulates that these proceeds be subject to a specified waterfall in covering costs associated with EFSI activities (Article 2(1), last subparagraph):

1. *In a first instance, proceeds from a given year should serve as a buffer against losses of the investment portfolio.* More specifically, losses occurring from debt investments should be netted once a year while equity losses should be subtracted immediately from proceeds as available.
2. *In a second instance, EIB requests for paying EFSI-related costs should be deducted from remaining profits*. However, the EIB should only be able to make use of this provision, once it has tried, unsuccessfully, to recover its costs from the beneficiary of the financing operation. Moreover, such use should be subject to an absolute cumulative cap of 1% of the total outstanding EU guarantee obligations.
3. *In the third instance, two types of costs should be deducted from remaining profits as due:*
    a. *Costs incurred by the EIB when providing funding to the European Investment Fund (EIF) on the Union's behalf.* As the EIF does not usually charge beneficiaries for its costs, the EIB would cover such costs on behalf of the Union.
    b. *Expenses related to the European investment Advisory Hub (EIAH, up to an amount of €20m per year.* This should reduce the need to use EU budgetary resources for that purpose.

Once all of these costs have been deducted as due, the residual amount of proceeds should be credited, once a year, to the EFSI Guarantee Fund (Article 8(2)(d)). This would help to contain risks to the budget and would allow keeping budgetary allocations to the guarantee fund to a strict minimum.

If at any point in the waterfall the yearly proceeds are insufficient to cover these costs:

- Losses or EIB requests for paying EFSI related costs (points 1 and 2 of the waterfall) should be covered by the guarantee fund, and;
- Costs incurred by the EIB when providing funding to the EIF on the Union's behalf and expenses related to EIAH (points 3(a) and 3(b) of the waterfall) should be covered directly from the Union budget.