

Solvency Support Instrument

2020/0106(COD) - 29/05/2020 - Legislative proposal

PURPOSE: to create a new solvency support instrument to help viable companies suffering the consequences of the coronavirus crisis.

PROPOSED ACT: Regulation of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure on an equal footing with the Council.

BACKGROUND: the coronavirus pandemic is putting many otherwise healthy businesses at risk of short-term financial difficulties. The problems shall increase as long as the restrictions on economic and social activities remain in place and the rules on distancing continue to affect them.

In order to prevent these companies from going bankrupt, many of them will need to recapitalise by raising new capital. The Commission estimates that the need to re-capitalise may amount to around EUR 720 billion in 2020 alone. These needs would be higher if lockdown measures stay in place for a longer period or in case of a second wave of the pandemic. In a stress scenario of a 15.5% GDP contraction, the direct impact on companies' equity could rise to EUR 1.2 trillion. These are estimates based on the best information available today.

If left unaddressed these capital shortfalls may lead to a prolonged period of lower investment and higher unemployment. The impact of the capital shortfall will be uneven across sectors, regions, industrial ecosystems and Member States, leading to divergences in the Single Market. This is compounded by the fact that the capacity of Member States to provide state aid differs greater.

The proposed new solvency support instrument, which will be based on the existing European Strategic Investment Fund (EFSI), is part of the package of measures to combat the negative economic consequences of the COVID-19 pandemic and constitutes a crisis instrument.

CONTENT: this proposal to amend [Regulation \(EU\) 2015/1017](#) (EFSI Regulation) aims to create a new solvency support instrument accessible to all Member States that will help viable companies in all economic sectors to cope with their solvency problems caused by the coronavirus pandemic.

The target is to mobilise up to EUR 300 billion in the real economy under the solvency support window.

Establishment of a third tier (solvency support) under the EFSI

The instrument shall operate through the granting of a Union guarantee to the European Investment Bank (EIB) Group under the European Fund for Strategic Investments (EFSI). Solvency support shall be a separate component of the EFSI, aimed at mobilising private capital.

The EIB Group shall use the guarantee to provide funding directly, or to invest in investment funds, special purpose vehicles, investment platforms or national development banks. These intermediary funds or entities shall be established and operate within the Union.

The EIB would implement the Solvency Support Instrument either directly or through the European Investment Fund (EIF). The governance structure of the EFSI would be maintained and would apply to the third strand.

In order to facilitate the implementation of the instrument, Member States could (i) create national special purpose entities that could apply for support under the Solvency Support Strand; (ii) in parallel with the guarantee or investment by the EIB Group, invest in funds or special purpose entities in compliance with State aid rules, either directly or through a national development bank or institution; and (iii) facilitate the creation of investment funds or special purpose entities by targeting institutional investors.

Conditions of support and investment guidelines

To be eligible for solvency support, companies need to: (i) be established and operate in the Union, (ii) have a viable business model and (iii) not be in difficulty within the meaning of the State aid rules by the end of 2019.

Priority shall be given to those Member States most economically affected by the pandemic and where the availability of State solvency support is more limited. The instrument shall also focus on green and digital transitions, which are EU priorities, and on supporting cross-border economic activities.

Duration of the instrument

The Commission proposes that, given its temporary nature, the instrument be put in place as soon as possible in 2020 and that it can be deployed at full capacity quickly in the course of 2021.

The investment period in relation to the solvency support window runs in general until end-2024 in terms of approvals by the Investment Committee and the governing bodies of EIB/EIF and until end-2026 in terms of signature of the operations. However, 60 % of the financing and investment operations must have been approved already by end-2022.

Budgetary implications

- the EU guarantee in relation to the solvency support window amounts to EUR 66.4 billion. Its introduction brings the total EU guarantee to maximum EUR 92.4 billion. The corresponding provisioning (at 50 % provisioning rate as regards the increase of the EU guarantee) amounts to EUR 33.2 billion, bringing the EFSI guarantee fund to EUR 42.3 billion in total. Consequently, the overall provisioning rate is adjusted to 45.8 %;

- a separate amount of EUR 100 million is foreseen to cover costs, advisory services and technical assistance linked to the set-up and management of funds, special purpose vehicles, investment platforms and other vehicles for the purposes of the solvency support instrument. It shall also support the green and digital transformation of companies financed under the solvency support window;

- lastly, the EU's participation in a possible capital increase of the EIF shall require a financial envelope of up to EUR 500 million in the revised multiannual financial framework for the current period.