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NOTE

From: General Secretariat of the Council
To: Permanent Representatives Committee
Subject: Investment Plan for Europe
Commission 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 (First reading)
– Preparation for the next informal trilogue

I. INTRODUCTION

1. On the 14 January 2015, the Commission transmitted to the Council its proposal for a Regulation of the European Parliament and the Council on the European Fund for Strategic Investments and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 (doc. 5112/15).
2. On the 15 January 2015, COREPER approved the establishment of an Ad-Hoc Working Party on the European Fund for Strategic Investments (EFSI) (doc. 5066/1/15 REV1). The proposal was examined at several meetings of the Ad-Hoc Working Party and Coreper. On 10 March, the Council adopted its General Approach (doc. 6584/15).

3. On 20 April, the European Parliament adopted its report on the proposal.
4. The informal meetings between the European Parliament, the Council and the Commission (trilogues) took place on 23 and 29 April, 7, 13, 19, 21, and 26 May. The Presidency believes that the negotiating mandate needs to be reviewed in particular as regards the issues of financing with a view of reaching a first reading agreement.

II. STATE OF PLAY

5. The European Parliament and the Council Presidency shared their ambition to deal with this file as a matter of priority with the aim of reaching a political agreement before June in order to allow the regulation to be adopted as soon as possible afterwards.
6. The discussions between the European Parliament and the Council have been organised in 8 building blocks, namely: lifetime of the Fund, governance, financing, use of the guarantee, European Investment Advisory Hub (EIAH) and Project Portal, EFSI Agreement, additionality, general objectives, eligibility criteria, investment guidelines, reporting, accounting, accountability, transparency.
7. Compromises on the Parliament's amendments were discussed with Member States at Ad Hoc Working Party meetings on 28 April, on 5, 11, 18 and 22 May. Permanent Representatives and Ministers were informed about the state of play of negotiations on 8 and 12 May respectively.
8. The European Council on 18 December 2014 invited the Union legislators to agree on the proposal on EFSI by June, so that the new investments can be activated as early as mid-2015. Next trilogue is scheduled for 27 May, when all the outstanding issues need to be resolved in order to enable timely adoption of the regulation.

III. OUTSTANDING ISSUES

9. The main outstanding issue is the financing of the EFSI Guarantee Fund.

The European Parliament seeks to protect EU budget investments earmarked for research and transport in the Programs Horizon 2020 and Connecting Europe Facility. Therefore alternative resources to finance the guarantee fund should be identified. The European Parliament suggested that the fund should be gradually filled via the annual budgetary procedure until it reaches €8 billion by 2022.

The European Commission presented two non papers with alternative solutions regarding financing of EFSI, which have been discussed by the Ad Hoc Working Party respectively on 18 May and on 22 May.

The latest Compromise presented by the Commission provides for the following elements:

- a) to be allocated to EFSI: EUR 543 million through general margin for commitments from 2014 budget, EUR X million from the GMC from the 2015 budget. The amount from the margins would be equally shared between the H2020 and CEF transport grant component. In addition EUR 250 million from the financial instruments in CEF-transport could be reallocated to CEF-transport grants;
- b) extension beyond 2020 for provisioning the EFSI Guarantee Fund.
- c) [the MFF review a possibility to adjust financing of EFSI to reduce impact on the H2020 and CEF;]
- d) [on the use sources of redeployment in the annual budgetary procedures under heading 1A to reduce redeployment of H20202 and CEF.]

10. Governance of the EFSI

The European Parliament considered that it should play a role in the process of appointment of the managing director and the deputy managing director.

The Presidency proposes to agree on a compromise according to which in the context of the appointment of the Managing Director the European Parliament will hold a hearing as well as approve the candidates. The European Parliament and the Council shall be kept duly informed in a timely manner at all the stages of the selection procedure.

The latest proposed compromise text of the article 3 of the proposal for a Regulation, including the provisions on the appointment procedure of the managing director and his deputy, as well as provisions regarding the Steering Board and the Investment Committee is in the annex to this note.

11. EFSI agreement

The European Parliament suggested adopting a delegated act on the EFSI agreement. The Presidency considered that since the Council has expanded substantially within the Regulation as to what the Agreement should contain, there is no need for the delegated act.

The Presidency proposes among others to agree on the idea of a scoreboard of the key performance indicators in assessing the macroeconomic impact of the EFSI investments, which was proposed by the European Parliament. The latest compromise text of the Article 2 regarding the terms of the EFSI agreement is found in the annex to the note.

12. Investment guidelines

The European Parliament suggested that the Investment guidelines should be adopted through a delegated act regarding the Investment Guidelines.

As a compromise the Presidency proposes to agree to place the Investment Guidelines in an annex to the Regulation and some of the elements of these Investment Guidelines to be adjustable through the delegated act. The proposed compromise text is found in the annex to this note.

13. Lifetime of the Fund

With respect to the lifetime of the Fund, the main issue is that the Council's general approach foresees a strong review clause that would require a new Commission proposal to allow new projects to be granted the EFSI Guarantee after 2019. In contrast, the EP has endorsed the Commission's proposal of a permanently continuous Fund.

The Presidency therefore proposes to agree on a compromise including the reference to the ‘initial investment period’. Before this period ends the Commission would submit an independent evaluation and as appropriate present the proposal regarding the future of the EFSI. The latest proposed wording of the relevant article is found in the annex.

IV. CONCLUSIONS

14. the Union legislators to agree on the proposal on EFSI by June 2015. In view of this objective the presidency foresaw to strive to finalise the negotiations on 27 May.

15. In the view of the overall objective to reach political agreement on 27th May ,the Presidency therefore seeks the Permanent Representatives view on the following questions

- regarding the financing of the EFSI:

- **Do you confirm that the compromise could be sought within the building blocks a and b ?**
- **If and under what conditions would the building blocks c and / or d be acceptable ?**

16. The Permanent Representatives Committee is also invited:

- to confirm the Presidency approach on the issue on EFSI agreement, governance, investment guidelines, lifetime of the Fund.

- invite the Presidency to conduct negotiations with the European Parliament on the basis of this mandate with a view to reaching an agreement at the first reading.

ANNEX

1. Governance of the EFSI (Compromise by Commission sent 26.05.2015)

Article 3

1. When carrying out the tasks conferred on them by this Regulation, the governing bodies referred to in this Article shall pursue only the objectives set by this Regulation.

2. The EFSI Agreement shall provide that the EFSI is to be governed by a **Steering Board**, which, for the purpose of the use of the EU guarantee, is to determine, in conformity with the objectives under Article [XX]:

- The strategic orientation of the EFSI, including the allocation of the guarantee within the infrastructure and innovation windows and the possible decisions to be taken under Article 7(3) and section 7b of Annex 2 of this Regulation
- The operating policies and procedures necessary to the functioning of the EFSI
- The rules applicable to the operations with the investment platforms and national promotional banks
- The risk profile of the EFSI

The Steering Board shall comprise four members: three appointed by the Commission and one by the EIB. The Steering Board shall elect a Chairperson from among its members for a fixed term of three years, renewable once. The Steering Board shall take its decisions by consensus.

The instruments used by the EIF for conducting the operations under this Regulation shall be approved jointly by the Steering Board and the Managing Director, after consultation of the Investment Committee.

Member States and third parties - subject for the latter to the agreement of the Steering Board - shall be allowed to contribute to the EFSI in form of guarantees or cash as regards Member States, and only in the form of cash as regards private actor. They shall not be granted membership of the Steering Board.

The minutes of Steering Board meetings shall be published as soon as they have been approved by the Board.

The Steering Board shall organize regularly a consultation of relevant stakeholders - notably co-investors, public authorities, experts, education, training and research institutions, the relevant social partners and representatives of the civil society - on the orientation and implementation of the investment policy carried out by the EIB under this Regulation.

3. The EFSI Agreement shall provide that the EFSI is to have a **Managing Director**, who is to be responsible for the day-to-day management of the EFSI and the preparation and chairing of meetings of the Investment Committee referred to in paragraph.

The Managing Director shall be assisted by a deputy managing director. The Managing Director shall report every quarter on the activities of the EFSI to the Steering Board.

Following an open and transparent selection process in line with EIB procedures, the Steering Board shall select a candidate for the position of Managing Director and Deputy Managing Director.

The European Parliament and the Council shall be kept duly informed in a timely manner at all the stages of the selection procedure, subject to strict confidentiality requirements.

The European Parliament shall organize as rapidly as possible and at the latest within 4 weeks a hearing with the candidate for each position.

Following the approval from the European Parliament, the Managing Director and deputy Managing Director shall be appointed by the President of the EIB for a once renewable fixed term of three years.

4. The EFSI Agreement shall provide that the EFSI shall have an **Investment Committee**, which shall be responsible for examining potential projects in line with the EFSI investment policies and approving the support of the EU guarantee for EIB projects in line with Article 5, irrespective of their geographic location. Furthermore, the Investment Committee shall be the competent body for approving operations with investment platforms and national promotional banks or institutions.

The Investment Committee shall be composed of eight independent experts and the Managing Director. The experts of the Investment Committee shall be appointed by the Steering Board for a renewable fixed term of up to three years and not exceeding 6 years in total, following an open and transparent selection procedure.

The independent experts shall have a high level of relevant market experience in project structuring and project financing, as well as micro and macro-economic expertise.

In appointing the experts to the Investment Committee, the Steering Board shall ensure that the composition of the Investment Committee is diversified, so as to ensure that it has a wide knowledge of the sectors covered in [Article XX] and geographic markets within the Union.

The composition of the Investment Committee shall be gender-balanced. The Steering Board shall strive to select experts having experience in investment in one or more of the following fields:

- Research, development and innovation
- Transport infrastructures and innovative technologies for transport
- Energy infrastructures, energy efficiency and renewable energy
- Information and communication technologies infrastructures
- Environmental protection and management
- Education, training
- Health and medicines
- SMEs
- Cultural and creative industries
- Urban mobility
- Social infrastructures and social and solidarity economy

When participating in the activities of the Investment Committee its members shall perform their duties impartially and in the interests of the EFSI. When implementing the guidelines adopted by the Steering Board and taking decisions on the use of the EU guarantee, they shall not seek nor take instructions from the EIB, the Union institutions, the Member States or any other public or private body. Adequate organizational arrangements shall be in place to ensure operational independence of the Investment Committee, without prejudice to the provision of analytical, logistical and administrative support by the staff of the EIB to the Investment Committee. Any project assessment conducted by EIB staff shall not be binding on the Investment Committee.]

CVs and declarations of interest of each member of the Investment Committee shall be made public and constantly updated. The members of the Investment Committee shall communicate without delay to the Steering Board all information needed to check on a continuous basis the absence of conflict of interest.

On a request from the Steering Board, the contract of any member of the Investment Committee which would breach the obligations set in paragraph 1 or 2 shall be terminated, in accordance with applicable employment and labour law rules.

Decisions of the Investment Committee shall be taken by simple majority. Decisions approving the use of the guarantee shall be public and accessible. The EIB shall submit twice a year to the European Parliament, the Council and the Commission a list of all decisions of the Investment Committee rejecting the use of the guarantee, subject to strict confidentiality requirements.

2. EFSI agreement

Article 2

‘1. The Commission shall conclude an agreement with the EIB concerning the management of the EFSI and on the granting of the EU Guarantee.

2. The EFSI Agreement shall contain, in particular, the following:

(a) The arrangements concerning the establishment of the EFSI [...], including

(i) provisions governing the establishment of the EFSI as a distinct, clearly identifiable and transparent facility and separate account managed by the EIB, whose operations are clearly distinguished from other operations of the EIB;

(ii) the amount and terms of the financial contribution which shall be provided by the EIB through the EFSI, which shall not be inferior to 5.000 000 000 euros in guarantees or cash;

(iii) the terms of the funding or guarantees which are to be provided by the EIB through the EFSI to the European Investment Fund ('EIF');

(iv) provision that the pricing of operations under the EU guarantee shall be in line with the EIB's general pricing policy.

(b) governance arrangements concerning the EFSI, in accordance with Article 3, without prejudice to Protocol (No 5) on the Statute of the European Investment Bank, including,

(i) the composition and number of members of the Steering Board, which will not be more than four;

(ii) provision that a representative of the Commission shall chair the Steering Board meetings;

(iii) provision that the Steering Board shall take decisions by consensus;

(iv) the procedure for the appointment of the Managing Director and of the Deputy Managing Director, their remuneration and working conditions, that shall follow the provisions on staff of the EIB, the rules and procedures on his/her replacement in his/her function and on accountability;

(v) the procedure for the appointment and dismissal of the members of the Investment Committee, their remuneration and working conditions, the voting modalities within the Investment Committee, specifying the quorum and the allocation of votes to each member;

(v) the requirement that the Steering Board and the Investment Committee adopt each their respective rules of procedure;

(vi) the requirement that financing and investment operations supported by the EFSI are ultimately approved by the EIB governing bodies, pursuant to the provisions laid down in Protocol (No 5) on the Statute of the European Investment Bank;

(vi) provisions on avoidance and handling of possible conflicts of interest;

(c) The arrangements concerning the EU guarantee, that shall be unconditional, irrevocable, first demand guarantee in favor of the EIB, including,

- (i) detailed rules on the provision of the EU guarantee, in accordance with Article 7, among which its modalities of coverage, its defined coverage of portfolios of specific types of instruments;
 - (ii) requirements that remuneration for risk taking be allocated amongst contributors in proportion with their respective share in risk taking. Remuneration to the Union and payments on the EU guarantee shall be made in timely manner and only occur after remuneration and losses from operations have been netted;
 - (iii) requirements governing the use of the EU guarantee in accordance with Article 5 of this Regulation, among which payment conditions, such as specific time frames, interest on due amounts and the necessary liquidity arrangements;
 - (iv) provisions and procedures relating to recovery of claims, that shall be entrusted to the EIB, in line with Article 7(4).
- (d) The modalities for the approval by the Investment Committee of the use of the EU guarantee for individual projects or through investment platforms, or national promotional banks or institutions in line with this Regulation and in particular Article 2a;
- (e) The procedures for the submission of investment proposals and approval of proposals for the use of the EU guarantee, including,
- (i) the procedure for the transmission to the Investment Committee of projects;
 - (ii) provisions on the information to be provided in the submission of investment proposals to the Investment Committee;
 - (iii) the requirement that the procedure for submission and approval of proposals for the use of the EU guarantee is without prejudice to the EIB decision making rules laid down under Protocol (No 5) on the Statute of the European Investment Bank, and in particular Article 19 thereof;
 - (iv) rules further detailing the transitional provisions under Article 20, and in particular the manner how operations signed by the EIB during the period referred to in Article 20 will be included under the EU guarantee coverage.
- (f) Arrangements for the reporting, monitoring and accountability concerning the EFSI, including,
- (i) the operational reporting obligations incumbent on the EIB and, as appropriate, in cooperation with the EIF, in line with Article 10 of this Regulation;
 - (ii) the financial reporting obligations stemming from the EFSI;
 - (iii) rules on auditing and anti-fraud, in accordance with Articles 14 and 15 of this Regulation;
 - (iv) key performance indicators, as regards, in particular, the use of the EU guarantee, the fulfilment of the general objectives laid down in Article 2a, the mobilisation of private capital, and the macroeconomic impact of the EFSI, including its effect on supporting investment
- (g) Provisions concerning evaluations of the functioning of EFSI in line with Article [12].
- (h) Provisions concerning the communication and promotion strategy of EFSI.
- (i) The procedures and conditions for the Agreement to be amended, that may take place upon the initiative of the Commission or of the EIB, and that shall include the obligation to report to the Council and to the European Parliament on the amendment;
- (j) Any other conditions of an administrative or organisational character necessary for the management of the EFSI in so far as they permit the proper use of the EU guarantee.

3. The EFSI Agreement shall also provide that:

- (a) EFSI activities conducted by the EIF are to be governed by the EIF governing bodies;
- (b) EFSI activities conducted by the EIF are to be subject to reporting requirements in line with Article [10];
- (c) remuneration attributable to the Union from EFSI supported operations is to be provided following the deduction of payments due to calls on the EU guarantee and, subsequently, costs in accordance with Article 5(3) and with the EIAH agreement.
- (d) The arrangements concerning the contribution by Member States with cash or guarantees to the EFSI, that shall not confer upon those Member States any right to participate in the decision making and voting of the Steering Board;

The arrangements concerning the contribution by third parties with cash to the EFSI, that shall not confer upon those third parties any right to participate in the decision making and voting of the Steering Board.'

3. Investment Guidelines

In Article 3 (5)

1. The Investment Committee shall decide on the use of the EU guarantee in accordance with the provisions of this Regulation, including the investment guidelines set out in Annex 2 thereto.
2. The Commission shall be empowered to adopt delegated acts in accordance with Article 17 concerning the amendment of the sections 5 to 7 of the investment guidelines laid down in Annex 2 to this Regulation. Amendments to the investment guidelines shall be prepared in close dialogue with the EIB.

Article 17. Exercise of the delegation

1. The power to adopt delegated acts is conferred on the Commission subject to the conditions laid down in this Article.
2. The power to adopt delegated acts referred to in Article 3(5) shall be conferred on the Commission for a period of three years from the entry into force of this Regulation. The Commission shall draw up a report in respect of the delegation of power not later than nine months before the end of the three-year period. The delegation of power shall be tacitly extended for periods of an identical duration, unless the European Parliament or the Council opposes such extension not later than three months before the end of each period.
3. The delegation of power referred to in Article 3(5) may be revoked at any time by the European Parliament or by the Council. A decision to revoke shall put an end to the delegation of the power specified in that decision. It shall take effect the day following the publication of the decision in the *Official Journal of the European Union* or at a later date specified therein. It shall not affect the validity of any delegated acts already in force.

Recital to be added

In order to facilitate a prompt and flexible adaptation of the investment guidelines laid down in Annex II to this Regulation, the power to adopt acts in accordance with Article 290 of the Treaty on the Functioning of the European Union should be delegated to the Commission with respect to the amendments of the relevant parts of the referred investment guidelines. It is of particular importance that the Commission carry out appropriate consultations during its preparatory work, including at expert level. The Commission, when preparing and drawing up delegated acts, should ensure a simultaneous, timely and appropriate transmission of relevant documents to the European Parliament and to the Council

ANNEX 2 (to Regulation on EFSI) EFSI INVESTMENT GUIDELINES

1. Scope

The purpose of the Investment Guidelines shall be to serve together with the Regulation to which it is annexed as a basis for the Investment Committee to decide in a transparent and independent manner on the use of the EU guarantee for EIB operations that are eligible under EFSI in conformity with the objectives and any other relevant requirements laid down in the EFSI Regulation (hereinafter referred to as the "Regulation" or the "EU Guarantee").

The Investment Guidelines are based on the principles established by the Regulation with regard to general objectives, eligibility criteria, eligible instruments and definition of additionality. They complement the Regulation by i) giving further guidance on eligibility, ii) providing a risk framework for operations, iii) defining sector and geographic diversification thresholds, and iv) defining criteria to assess the contribution to the EFSI objectives to facilitate prioritisation.

These Guidelines only apply to the debt and equity instruments referred to in Article [6(2)(a)] of the Regulation and are thus not applicable to the EFSI operations referred to in Article [6(2)(b)].

2. Eligible Counterparts, Project Types and Instruments

(a) The eligible counterparts to benefit from the EU guarantee shall include:

- Corporates of all sizes, including utilities, SPVs or project companies,
- SMEs (below 250 employees) or Midcaps (below 3000 employees),
- NPBs or financial institutions for intermediation
- Equity / debt funds and any other form of collective investment vehicles
- Dedicated investment platforms
- Public sector entities (territorial or not, but excluding direct Member State risk) and public sector type entities

(b) The EU guarantee shall be granted to support financing of new operations, directly or indirectly. In the infrastructure field, greenfield investments (asset creation) should be encouraged. Brownfield investments (extension and modernisation of existing assets) can also be supported. As a rule, the EU guarantee shall not be granted for supporting refinancing operations (such as replacing existing loan agreements or other forms of financial support for projects which have already partially or fully materialised), except in exceptional and well justified circumstances where it is demonstrated that such a transaction will enable a new investment of an amount at least equivalent that would fulfil EFSI general criteria and objectives.

(c) The EU Guarantee shall support a wide range of products to allow the EFSI to adapt to market needs while encouraging private investment in the projects, without crowding out private market finance. In this context, it is expected that the EIB would provide finance under EFSI with a view to reach an overall initial target of EUR 315bn of public or private investment, including financing mobilised through the EIF under EFSI operations referred to in Article [6(2)(b)] and National Promotional Banks. The eligible products will include inter alia¹ loans, guarantees / counter-guarantees, mezzanine and subordinated finance, capital market instruments including credit enhancement, and equity or quasi-equity participations, including through national promotional banks or institutions, investment platforms or funds.

3. Additionality

The EU guarantee shall be granted in support of operations that meet the additionality criterion as defined in in Article XX of the Regulation.

The following general principles will also apply:

(a) In order to avoid duplication of existing financial instruments, the EFSI Guarantee can complement, be combined with, or strengthen/enhance existing EU programmes or other sources of EU funds or joint instruments.

(b) Over the course of the EFSI Investment Period, investment supported by EFSI should not crowd out the use of other EU financial instruments.

4. Added value: contribution to EFSI objectives

(a) Projects benefitting from the EU guarantee should respect the eligibility criteria and objectives set out in articles [X] and [Y] of the Regulation.

(b) With a view to ensure an independent and transparent assessment of the possible use of the EU Guarantee for an EFSI operation or product, the Investment Committee shall use a scoreboard of indicators that facilitate the EFSI value added assessment of a proposed operation/products. This will complement underlying information on eligibility and additionality.

(c) The scoreboard shall provide a framework to assess the quality and contribution of an operation to sustainable growth and employment, the contribution to EU and EFSI policy objectives, as well as the financial and technical contribution resulting from EIB/EFSI involvement, including the provision of advisory services,

¹ This is a non-exclusive indication of products that may be offered via EFSI.

(d) In addition, the scoreboard shall comprise a calculation of the multiplier based on a uniform methodology for EFSI operations, and shall capture additional EFSI specific features such as the cooperation with national promotional institutions.

(e) The scores will be computed by EIB services. The Investment Committee shall prioritise the use of the EU Guarantee for operations that display higher scores for added value.

(f) The steering board may provide additional guidance regarding the use of the scoreboard by the Investment Committee.

5. Investment Windows

(a) The debt and equity instruments referred to in Article [6(2)(a)] will be provided under an Infrastructure and Innovation Window (IIW), which will consist of a Debt Sub-window and an Equity Type Sub-window. Allocation of operations² to one of the two Sub-windows will be based on EIB's system of Loan Grading and EIB's standard risk assessment and subject to guidance provided by the Steering Board.

(b) Infrastructure and Innovation Window - Debt Sub-window

- For debt type operations, the EIB will carry out its standard risk assessment, involving the computation of the Probability of Default and Recovery Rate. Based on these parameters, EIB will quantify the risk for each operation. Such computation shall be performed without taking into account the EU Guarantee, to reflect the overall risk of the transaction.
- Each debt type operation will receive a risk classification (the Transaction Loan Grading) as per EIB's system of Loan Gradings as amended from time to time. Information on loan grading will be included in the project documentation for the Investment Committee. Transactions with a higher risk profile than projects supported by normal EIB operations are referred to as Special Activities as defined by article 16 of the EIB statute. Operations supported by the EU guarantee will typically have a higher risk profile than normal EIB operations and hence fall under the Special Activities. Transactions with a better loan grading can be included into the EFSI Portfolio provided that a high added value is clearly demonstrated and its inclusion is unlikely to jeopardise the [minimum target for special activities as defined in article [xx, the article which defines additionality] or [overall portfolio risk-level target at the end of the initial Investment Period.

² The term 'operation' applies to both direct investment in a project (debt or equity) or an 'operation' (projects, programmes or facilities) with a financial or other intermediary but not, for the avoidance of doubt, to the underlying projects supported by such an intermediated operation.

- Projects will have to be economically and technically viable and the EIB's financing will have to be structured in line with sound banking principles and comply with the high level risk management principles set by the EIB in its internal guidelines as amended from time to time. All relevant information will be made available to the members of the Steering Board and of the Investment Committee.
- Debt type products will be priced in line with EIB's loan pricing methodology as amended from time to time.

(c) Infrastructure and Innovation Window - Equity Type Sub-window

- For equity type operations, the EU guarantee can be used to support direct investments in individual companies or projects (Equity Type Direct Investments) or financing for funds or analogous portfolio risks (Equity Type Portfolio), provided that EIB invests on a pari-passu basis for its own risk as well. The determination that an operation bears equity type risks (or not), irrespective of its legal form and nomenclature, will be based on EIB's standard assessment.
- EIB's equity type operations shall be carried out in accordance with the Bank's internal rules and procedures, as amended from time to time or established. All relevant information for the assessment of the operation will be made available to the members of the Steering Board and of the Investment Committee.
- Equity type investments will be priced in line with the market, absent which market testing or benchmarking will be used.

6. Exposure limits per risk category

(a) The exposure limits for Special Activities categories decreases with increasing risk-level, as expressed in the Transaction Loan Grading. The limit is thus generally higher for debt-type risk than for equity-type risk.

(b) Reflecting the availability of credit enhancement provided by the EU Guarantee, the limits under EFSI will be set by the EIB higher than the equivalent limit under the EIB's own risk business. The members of the Steering Board and the Investment Committee will receive a detailed overview of the EFSI risk limits. The Steering Board will supervise regularly the development of the risk profile of the EFSI portfolio and will propose measures (including changes in transaction limits) if deemed necessary.

(c) Transactions for higher amounts than the specific EFSI limits can be included into the EFSI Portfolio on an exceptional basis, with the agreement of the Steering Board, provided that additionality and added value is clearly demonstrated and their inclusion is unlikely to jeopardise the overall portfolio risk-level target at the end of the initial Investment Period.

7. Sector and geographic diversification

(a) The EFSI is demand driven but aims to support eligible projects across the EU as well as Cross-Border Projects, as defined in the Regulation, without any sectoral or geographical pre-allocation. However, best efforts shall be made to ensure that at the end of the initial Investment Period a wide range of sectors and regions will be covered and excessive sectoral/geographical concentration should be avoided.

(b) Sector Concentration

In order to manage sector diversification and concentration of the EFSI portfolio, the Steering Board shall set indicative concentration limits in respect of the volume of operations supported by the EU Guarantee at the end of the initial Investment Period. The indicative concentration limits shall be made public.

The Steering Board may decide to modify these indicative limits, after consultation of the Investment Committee. In that case, the Steering Board shall explain its decision to the European Parliament and to the Council in writing.

(c) Geographical Concentration

The EIB shall strive to respect where possible the following indicative geographical diversification and concentration guidelines at the end of the initial investment period:

- i. The EFSI should aim to cover 28 EU Member States.
- ii. The share of investment in any four Member States (measured by signed loan/investment amounts) should not exceed 50% of the total EFSI portfolio.

For information:

The Commission and EIB intend to adopt within the Steering Board the following sectorial limits:

Sectors	Indicative Max Exposure (% of Portfolio at the end of the investment period)
1. Energy	30%
2. Telecommunication	30%
3. Transport	30%
4. Urban & Social	30%
5. Water & Environmental Protection	30%
6. Primary production & Industry	30%
7. Other	30%

4. Lifetime of EFSI

In Article 5

The initial investment period during which the EU guarantee may be granted for supporting financing and investment operations under this Regulation shall last until:

(a) [PO insert date 4 years after of entry into force of this regulation] for EIB operations for which a contract between the EIB and the beneficiary or financial intermediary has been signed by 30 June 2020.

(b) [PO insert date: 4 years after of entry into force of this Regulation] for EIF operations for which a contract between the EIF and the financial intermediary has been signed by 30 June 2020.

A new investment period may be set according to the procedure established in Article 12.

In Article 12

By [PO insert date: 3 years after the entry into force of this Regulation], the Commission shall submit to the European Parliament and the Council a report containing an independent evaluation of the application of this Regulation.

If this report:

(a) Concludes that the EFSI is achieving its objectives and that maintaining a scheme for supporting investment is warranted, the Commission shall where appropriate adopt proposals amending this Regulation with a view to setting the new investment period and ensuring its appropriate financing;

(b) Concludes that the EFSI is not achieving its objectives and that maintaining a scheme for supporting investment is warranted, the Commission shall where appropriate adopt proposals amending this Regulation with a view to addressing the flaws identified, setting the new investment period and ensuring its appropriate financing;

(c) Concludes that the EFSI is not achieving its objectives and that maintaining a scheme for supporting investment is not warranted, the Commission shall where appropriate adopt proposals for ensuring a smooth termination of the EFSI, while preserving the guarantee of the EU for the operations already approved under this Regulation.

The above mentioned report containing an independent evaluation shall be submitted without delay by the Commission in the event that the approved projects would absorb fully before the review date the amount of EU guarantee available