

European Stability Mechanism

Guideline on the Primary Market Support Facility

Article 1

Objective

The ESM may engage in Primary Market Purchases (PMP) of bonds or other debt securities issued by ESM Members under the Primary Market Support Facility (PMSF) as a complement to (a) regular loans under a macroeconomic adjustment programme within the meaning of Article 12(1) of the ESM Treaty or (b) to draw-downs of funds under precautionary financial assistance pursuant to Article 14 of the Treaty. The main objective of the PMSF shall be to allow the ESM Members to maintain or restore their market access.

Article 2

Procedure for using PMSF for the disbursement of a loan

1. An ESM Member may request the use of a PMSF either:

(a) when requesting a loan according to the procedures provided for in Article 2 of the Guideline on Loans.

or

(b) after having entered into a Loan Facility, in which case the procedures for granting support shall have already been completed in accordance with Article 2 of the Guideline on Loans. The Managing Director shall prepare a proposal within the overall financial limit of the loan facility for the adoption by the Board of Governors whether to grant the PMSF. The Managing Director of the ESM shall be entrusted with the task of preparing a proposal for a revised financial assistance facility agreement (FFA), covering the financial terms and conditions of the PMSF, to be adopted by the Board of Directors.

2. An ESM Member to which a PMSF has been granted shall inform the Managing Director of its intention to have one or several tranches under a loan facility disbursed via PMP.

3. On a proposal from the Managing Director, the Board of Directors shall allow the disbursement under a loan facility via PMP, after having received the last report by the European Commission in liaison with the ECB on the compliance by the beneficiary Member with the policy conditionality attached to the assistance facility.

4. The Managing Director shall agree with the beneficiary ESM Member the detailed modalities for carrying out the PMP under a disbursement. This agreement shall be in line with Article 4 and shall be updated regularly with a view to take into account the evolution of the market situation of the beneficiary ESM member.



5. Notwithstanding paragraph 3, a PMP shall not be conducted if the Managing Director concludes that the participation of private investors would be insufficient to comply with the minimum participation specified in Article 4 or that the rate would be excessively above the ESM funding rate. The purchase of bonds shall then be replaced by a regular disbursement of the loan, whenever needed to cover the financing gap of the beneficiary Member State.

Article 3

Procedure for using PMSF for drawing-down funds under a credit line

1. An ESM Member may request the use of a PMSF either:

- (a) when requesting a credit line according to the procedure provided for in Article 3 of the Guideline on Precautionary Financial Assistance

or

- (b) after having received a credit line, in which case the procedures for granting support shall have already been completed in accordance with Article 3 of the Guideline on Precautionary Financial Assistance. The Managing Director shall prepare a proposal for the adoption by the Board of Governors whether to grant the PMSF. The Managing Director of the ESM shall be entrusted with the task of preparing a proposal for a revised financial assistance facility agreement (FFA), covering the financial terms and conditions of the PMSF, to be adopted by the Board of Directors.

2. An ESM Member to which a stability support in the form of a credit line has been granted pursuant to the relevant ESM guideline shall inform at least a week, or as otherwise agreed in the facility agreement, in advance the ESM Board of Directors of its intention to draw-down funds via PMP.

3. The Managing Director shall agree with the beneficiary ESM Member the detailed modalities for carrying out the PMP. This agreement shall be in line with article 4 and shall be updated regularly with a view to taking into account the evolution of the market situation of the beneficiary ESM member.

4. Notwithstanding paragraph 2, a PMP shall not be conducted if the Managing Director concludes that the participation of private investors would be insufficient to comply with the minimum participation as specified under Article 4 or that the rate would be excessively above the ESM funding rate. Where appropriate, the purchase of bonds shall then be replaced by a regular draw-down of funds.

5. The use of PMPs shall trigger a reassessment of the adequacy of the precautionary programme and the policy conditions attached to it.

Article 4

Implementation of the primary market purchases

PMP shall, as a rule, be conducted at market price. The Managing Director shall implement PMP in view of the issuance approach taken by the ESM member:



(a) *Via a participation in auctions*, at the average weighted price of the auction. The amount purchased by the ESM shall, as a rule, be limited to a maximum of 50% of the final issued amount. This proportion shall, however, be increased if market bids at acceptable prices are insufficient, with a view to ensuring that the amount sold by the beneficiary ESM Member is equivalent to at least half of the originally targeted amount.

or

(b) *Via participation in syndicated transactions*, at the re-offer price. The amount purchased by the ESM shall, as a rule, be limited to a maximum of 50% of the final issued amount. This proportion shall, however, be increased if the order book is insufficient, with a view to ensuring that the amount sold by the beneficiary ESM Member is equivalent to at least half of the originally targeted amount.

Article 5 **Management of the portfolio of bonds**

1. The bonds purchased under a PMSF can be managed in the following manner:
 - (a) Can be sold (i) if the bond market of the beneficiary ESM Member has returned to normal functioning and if it is unlikely to reduce the capacity of the ESM Member to lodge its issuances on the primary market, or (ii) to mitigate the risk of realising a loss in relation to its holdings of securities of the ESM Member concerned, irrespective of a possible decision to sell them;
 - (b) Can be held to maturity ;
 - (c) Can be sold back to the beneficiary ESM Member
 - (d) Can be used for repos with commercial banks to support the liquidity management of the ESM.
2. The Managing Director will propose options for the management of the bond portfolio to the Board of Directors.
3. The Managing Director shall be responsible for the management of the bond portfolio in accordance with the options agreed by the Board of Directors.
4. The beneficiary ESM Member shall be informed about the management of the bond portfolio and approve the conduct of operations under paragraph 1(a) in case they would create any liability for the concerned ESM Member, unless ESM would face a significant risk of realising a loss in relation to its holdings of securities of the ESM Member concerned, irrespective of a possible decision to sell them.