



EU SURE Social Bond Framework

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Part 1. Background for issuing EU SURE Social Bonds

1.1. The European Union (EU)

The purpose of the EU.

The European Union is a supranational entity currently composed of 27 Member States¹. It was established by the Treaty of Rome (1957) to bring about the political and economic integration of Europe after World War II. The Treaty of Rome was modified and complemented, over time, by the Single European Act, the various Accession Treaties, the Treaties of Maastricht, Amsterdam and Nice and Lisbon. What began as a purely economic union has evolved into an organisation covering a wide range of policy areas from climate, environment and health to external relations and security, justice and migration.

The EU has legal personality and possesses, in each of the Member States, the most extensive legal capacity accorded to legal persons constituted in that State.

The EU as a borrower².

The EU enjoys a AAA/Aaa/AA/AAA/AAA credit rating with stable outlook³. The EU has been operating three loan programmes to provide financial assistance to Member States and third countries experiencing financial difficulties: EFSM⁴, BoP⁵ and MFA⁶. The EU is currently setting up a fourth programme, the SURE (Support to mitigate Unemployment Risks in an Emergency) instrument.⁷

¹ Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain and Sweden. https://europa.eu/european-union/about-eu/countries_en

² For a general Investor presentation of the EU as a borrower:

https://ec.europa.eu/info/sites/info/files/economy-finance/eu_investor_presentation_en.pdf

³ Fitch/Moody's/S&P/DBRS/Scope credit rating agencies.

⁴ European Financial Stabilisation Mechanism (EFSM): Under Council Regulation (EU) 407/2010 of 11 May 2010 (as amended), EU financial assistance may be granted (in the form of a loan or a credit line) to a Member State in difficulties or seriously threatened with severe difficulties caused by exceptional occurrences beyond its control. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32010R0407>

⁵ Balance of Payments programme (BoP): Under Council regulation (EU) 332/2002 of 18 February 2002 (as amended), the EU may assist Member States outside the euro area which are in difficulties or are seriously threatened with difficulties as regards their balance of payments. <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32002R0332>

⁶ Macro-Financial Assistance (MFA): The EU may assist third countries experiencing a balance-of-payment crisis with grants and/or loans on the basis of individual decisions of the European Parliament and of the Council. The instrument is designed to address exceptional external financing needs of countries that are geographically, economically and politically close to the EU. https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/international-economic-relations/macro-financial-assistance-mfa-non-eu-partner-countries_en

⁷ Council Regulation (EU) 2020/672 of 19 May 2020 on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak

All four programmes are funded through bonds issued on the capital markets. To this end, the European Commission is empowered to contract borrowings on the capital markets on behalf of the EU.

The Commission aims at issuing the bonds under the SURE instrument as social bonds,⁸ as further explained below.

1.2. EU policies have a strong focus on green and social sustainability issues

Sustainability issues have long been embedded within the EU project and the EU Treaties give recognition to its social and environmental dimensions.⁹

The EU Green Deal¹⁰ and EU Recovery Plan¹¹ are the latest examples of European Commission's policies aiming at accelerating the transition to a more sustainable economic growth while fostering innovation, employment and investment opportunities. The EU wants to become the world's first climate-neutral economy by 2050.

The European Commission launched in 2017 the European Pillar of Social Rights^{12 & 13}, a key priority initiative which aims at bringing fairness to every citizen's daily life. The Pillar's 20 principles aim at improving equal opportunities and jobs for all, ensuring fair working conditions, and fostering social protection and inclusion. It is the European Commission's social strategy to make sure that the transitions of climate-neutrality, digitalisation and demographic change are socially fair and just¹⁴.

The EU is home to the most advanced welfare systems in the world and to a wealth of best practices and social innovations. However, it needs to confront and adapt to unprecedented societal challenges. The COVID-19 pandemic has severely affected public health and societies in all Member States. It is a major socio-economic shock to the EU. The European Commission has therefore responded with a broad array of measures to mitigate the socio-economic impact of the coronavirus outbreak, centred on an EU coordinated response and support to Member States, including through the launch of the SURE instrument.

⁸ For an investor presentation on SURE: https://ec.europa.eu/info/sites/info/files/economy-finance/ip_gic_en_final.pdf

⁹ See, among others, art. 3.3 of the Treaty on the European Union (TEU) and the role of environmental and social issues in international cooperation (art. 21 TEU).

¹⁰ The EU Green Deal: <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1588580774040&uri=CELEX:52019DC0640>

¹¹ The EU Recovery Plan: <https://www.consilium.europa.eu/en/policies/eu-recovery-plan/>

¹² European Pillar of Social Rights: https://ec.europa.eu/commission/sites/beta-political/files/social-summit-european-pillar-social-rights-booklet_en.pdf

¹³ Communication from the Commission to the European Parliament, the Council, the Economic and Social Committee and the Committee of Regions establishing a European Pillar of Social Rights COM/2017/250 final. <https://eur-lex.europa.eu/legal-content/en/ALL/?uri=CELEX%3A52017DC0250>

¹⁴ The European Commission intends to present an Action Plan to implement the rights and principles enshrined in the Pillar in early 2021.

1.3. The SURE instrument, a response to the COVID-19 pandemic economic and social crisis

As part of its Communication¹⁵ setting out its coordinated economic response to the coronavirus pandemic, the European Commission committed to accelerating the preparation of its legislative proposal for a European Unemployment Reinsurance Scheme.

The SURE instrument can be seen as an emergency operationalisation of the European Unemployment Reinsurance Scheme announced by the President of the European Commission in her Political Guidelines¹⁶. The SURE instrument was designed and adopted in record-time to specifically respond to some of the socio-economic consequences of the COVID-19 pandemic and especially to help Member States contain unemployment.

SURE is a new temporary instrument of up to €100 billion designed to urgently provide financial assistance in the form of loans to Member States experiencing a sudden and severe increase, as from 1 February 2020, in public expenditure for the preservation of employment. The financial assistance complements national measures and will be channelled by the EU to beneficiary Member States in the form of loans granted on favourable terms¹⁷.

The SURE instrument will support national short-time work schemes and similar measures, to help Member States protect jobs and thus employees and the self-employed against the risk of unemployment and loss of income. It will help sustain families' incomes and preserve the productive capacity and human capital of enterprises and the economy as a whole. In this way, it will help mitigate the direct societal and economic impact caused by the COVID-19 pandemic.

The EU is responding to the crisis on the EU labour market in a coordinated and rapid manner, in a strong spirit of solidarity between Member States.

The support granted by the EU to Member States under SURE fulfils a core and essential social function. It will be financed by recourse to the issuance of EU SURE Social Bonds under the present EU SURE Social Bond Framework.

¹⁵ https://ec.europa.eu/info/sites/info/files/communication-coordinated-economic-response-covid19-march-2020_en.pdf

¹⁶ https://ec.europa.eu/commission/sites/beta-political/files/political-guidelines-next-commission_en.pdf

¹⁷ The EU takes no margin on the loans. The loans are priced at a low level thanks to the high EU credit rating.

Part 2. Alignment of the EU SURE Social Bond Framework with the ICMA Social Bond Principles

The SURE instrument aims at preserving employment in order to sustaining families' income and the economy as a whole, thus targeting the general population impacted by the COVID-19 pandemic in the EU. The EU SURE raison d'être is well aligned with the ICMA Social Bond Principles (ICMA SBP)¹⁸.

The EU SURE Social Bond Framework (the "Framework") is therefore structured around and meant to be compliant with the four core components of the ICMA SBP.

With this approach, the EU strives to use Social Bonds under the SURE instrument as an ESG (Environment, Social, and Governance) debt instrument allowing the investor community to allocate their funds towards the social needs of EU Member States hit by the pandemic crisis. This approach also contributes to the further development of the social bond market, which promotes transparency of the 'Use of Proceeds', while encouraging the measure of social impact of the underlying expenditures financed.

The scope of the present Framework will be further extended in the future to include potential green, social and sustainability EU bonds as issued under the Recovery Plan¹⁹. It is EU's ambition to align future EU bonds with the forthcoming EU Taxonomy for environmentally sustainable activities²⁰. To avoid any confusion, the bonds under the present Framework will be named "EU SURE Social Bonds": they are not prefiguring the social part of the future EU Taxonomy nor a possible action of the Commission in the area of the EU Green/Social Bond Standard.

2.1. Use of Proceeds

The European Commission will use an amount equal to the net proceeds from the EU SURE Social Bonds to disburse loans on favourable terms to Member States. Article 1(2) of the SURE Regulation as further specified by accompanying internal guidance provides for the eligibility criteria of the actual and planned national expenditures (the "Eligible Social Expenditures").

- Eligible Social Expenditures aim at providing financial assistance to Member States experiencing, as of 1 February 2020, a sudden and severe increase in public expenditure on the preservation of employment, to tackle the economic disturbance caused by the COVID-19 outbreak.

¹⁸ ICMA Social Bond Principles <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Social-Bond-PrinciplesJune-2020-090620.pdf>

¹⁹ Overview of the EU recovery plan https://ec.europa.eu/commission/presscorner/detail/en/ip_20_940

²⁰ EU Taxonomy Regulation: <https://data.consilium.europa.eu/doc/document/ST-5639-2020-INIT/en/pdf>

- The Eligible Social Expenditures will finance or refinance, in whole or in part, short-time work schemes²¹ or similar measures designed by Member States to protect employees and self-employed. The objective is to reduce the risk of unemployment and loss of income.
- The Eligible Social Expenditures will also finance or refinance, on an ancillary basis, health-related measures, in particular in the workplace.

The Eligible Social Expenditures comply with the ICMA SBP categories “*Employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises*” and “*Access to essential services (e.g. health; healthcare)*”.

Furthermore, they reflect the diversity of short-time work schemes across the EU, thus target the general population impacted by the COVID-19 pandemic in the Members States.

UN Sustainable Development Goals

The Eligible Social Expenditures are also contributing to some of the United Nations’ Sustainable Development Goals²² (SDGs).

In particular, SDGs number 3 (Good Health and Well-Being) and number 8 (Decent Work and Economic Growth) are clearly targeted by the SURE instrument.



2.2. Process for Project Evaluation and Selection

The SURE instrument will be made available at Member States’ request. To that end, following an extensive dialogue with the European Commission, the beneficiary Member State submits to the European Commission a detailed and substantiated request for financial assistance (Article 6 of the SURE Regulation).

There is a clear and thorough process by which the European Commission assesses whether the Member States’ actual and planned expenditure are Eligible Social Expenditures (see

²¹ Short-time work schemes are public programmes that allow firms experiencing economic difficulties to temporarily reduce the hours worked while providing their employees with income support from the State for the hours not worked

²² For a description of the United Nations’ Sustainable Development Goals: <https://sdgs.un.org/goals>

section 2.1.). That process assesses whether there has been a sudden and severe increase in public expenditure on national measures directly related to short time work schemes and similar measures (to address the socio-economic effects of the COVID-19 outbreak).

In addition, the European Commission assesses the costings of the requested measures.

This helps the European Commission evaluate the terms of the loan (amount, maximum average maturity, pricing, availability period of support and technical modalities for implementation).

On 25 September 2020, the Council of the EU adopted for each beneficiary Member State an implementing decision approving the financial assistance.

2.3. Management of Proceeds

The European Commission will use the cash inflows stemming from the EU SURE debt issuance (EU SURE Social Bonds) to disburse the loans to Member States under the SURE Instrument in instalments.

The European Commission will immediately credit the net SURE proceeds to the beneficiary Member States. As required by Article 10 of the SURE Regulation, the beneficiary Member State shall open a special account with its national central bank for the management of the financial assistance received. It shall also transfer the principal and the interest due under the loan agreement to an account with the European System of Central Banks.

The European Commission will ascertain that the SURE proceeds are used by the beneficiary Member States exclusively for the Eligible Social Expenditures (see section 2.1.), on the basis of the expenditure identified in the request of the beneficiary Member State (see section 2.2.).

The beneficiary Member States will have undertaken in their loan agreement with the EU to use the proceeds to finance or refinance eligible national expenditure.

The European Commission²³ will track and monitor the use of the SURE proceeds by the beneficiary Member States. This tracking and monitoring will be based on a formal internal process. It will heavily rely on the regular reporting imposed by Article 13(2) of the SURE Regulation on the beneficiary Member States regarding the implementation of the planned public expenditure.

²³ In particular, Directorates General Employment (DG EMPL) and Economic and Financial Affairs (DG ECFIN) of the European Commission.

2.4. Reporting

Based on the financial assistance request by beneficiary Member States and on the tracking and monitoring of the SURE proceeds, the European Commission intends to report within six months of the first issuance under the SURE instrument, and every 6 months thereafter. The European Commission will report on the allocation and/or the impact of the SURE proceeds of the Eligible Social Expenditures made by the beneficiary Member States.

Allocation reporting

It is intended that the allocation reporting will present in aggregated terms the breakdown of SURE proceeds by beneficiary Member State and by envisaged main type of Eligible Social Expenditure.

Impact reporting

Article 13(2) of the SURE Regulation foresees that every six months, beneficiary Member States inform the Commission about the implementation of planned public expenditure. The impact reporting will depend on the quality and granularity of the information reported by beneficiary Member States. While the European Commission has no full control on this, it will endeavour to obtain the relevant data and indicators from the beneficiary Member States, such as number of jobs and number of companies covered/supported. The European Commission will then aggregate the available set of data and report about them.

As recommended by ICMA, this reporting will be published on the European Commission's website.

Article 13(1) of the SURE Regulation sets rules on controls and audits on the implementation of the SURE instrument.

Part 3. External Review

The European Commission has engaged with an external party to provide an independent assessment (the "Second Party Opinion") on the alignment of the present Framework with ICMA SBP.

The Second Party Opinion document is published on the European Commission's website alongside the present Framework.

Part 4. Legal Documentation

The Use of Proceeds section of the Pricing Supplement of the EU SURE Social Bond transaction documents will specify that the EU intends to disburse to Member States an amount equal to the net proceeds of the EU SURE Social Bonds in view of the Eligible Social Expenditures under the present Framework.

The documentation will refer also to the reporting on the allocation of funds and the impact of related expenditures, as per the present Framework.

Part 5. Disclaimer

This Framework has been prepared by the EU for information purposes only. This Framework should not be taken as investment advice and it is not intended to serve as a basis for any kind of obligation, contractual or otherwise. In particular, it does not constitute an offer to sell or the solicitation of an offer to buy any securities, nor will there be any sale of securities in any state or jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state or jurisdiction. No communication and no information in respect of the offering of securities may be distributed to the public in any jurisdiction where a prior registration or approval is required. The offering or subscription of securities may be subject to specific legal or regulatory restrictions in certain jurisdictions. The EU takes no responsibility for any violation of any such restrictions by any person. If any offer of securities is made, it will be made pursuant to an offering document prepared by the EU which would contain material information not contained herein and to which prospective purchasers are referred. Such purchasers should also consult their professional advisers before making any investment decision.

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