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From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
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To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union

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Subject:	Communication from the Commission to the European Parliament and the Council on identity of the asset manager for the common provisioning fund in accordance with Article 212 of Financial Regulation 2018/1046

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Delegations will find attached document COM(2020) 130 final.

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Brussels, 25.3.2020  
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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN  
PARLIAMENT AND THE COUNCIL**

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Article 212 of Financial Regulation 2018/1046**

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**Summary:**

Following the results of an independent evaluation, the Communication informs Parliament and Council that the Commission will manage itself the assets of the Common Provisioning Fund (CPF), rather than submit a legislative proposal which would allow or instruct the Commission to delegate this role to the European Investment Bank (EIB). The CPF will receive funds from the EU budget over the course of the next Multi-Annual Financial Framework (2021-2027). These assets will constitute the provisions that secure the operation of financial instruments, financial assistance and budgetary guarantees to support investment in the EU<sup>1</sup> and developing and neighbourhood countries<sup>2</sup>, delivered through public finance institutions such as EIB and other implementing partners. These operations will support investment that contributes to EU policy goals such as building a sustainable economy.

By directly managing the assets of the CPF, the Commission will be able to ensure that the CPF is aligned with the budgetary demands flowing from the operations, and to report regularly to Parliament and Council on these matters. The assets of the CPF will underpin the system of budgetary guarantees and guaranteed loans that the EU will provide under the next multiannual financial framework (MFF). It is precisely because of its “systemic” importance for the EU budget, and its own institutional responsibilities that the Commission has decided to manage itself the assets of the CPF. The independent evaluation finds that both the Commission and EIB possess the appropriate expertise, systems and governance arrangements to manage the CPF, and that the Commission has in the past delivered better performance at lower cost to the EU budget. The Communication will also inform the Parliament and the Council of the steps that the Commission will take to ensure that the CPF is ready at end 2020 to start investing as from January 2021 when budget appropriations become available.

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<sup>1</sup> Within the EU, this investment support is provided by the European Fund for Strategic Investment (EFSI) launched in 2014 and expanded in 2016. EFSI together with 13 other EU financial instruments currently available will be integrated into a larger and more comprehensive InvestEU programme for the period 2021-27.

<sup>2</sup> The budgetary guarantees for investment support in developing and neighbourhood countries are organised under the European Fund for Sustainable Development (EFSD: 2017) and its successor (EFSD+) for the next multiannual financial framework.

## 1. INTRODUCTION:

The EU budget is undergoing a profound change. It must respond to pressing new environmental, strategic and socioeconomic challenges at a time when budget constraints bite more deeply. This calls for new ways of making the resources available under the EU budget work harder for the EU citizen.

Budgetary guarantees have proven to be a viable means to multiply the policy impact of limited public finance. Through extensive use of budgetary guarantees, each euro committed by the EU budget in the Investment Plan for Europe was able to support EUR 15.7<sup>3</sup> of private investment in projects generating environmental, social or economic benefits.

On the back of that success, the Commission has proposed to expand the use of budgetary guarantees as one of the principal forms of public finance support to investment provided by the EU budget. Under the InvestEU<sup>4</sup> programme, it is proposed that the EU budget will provide several billion in funds as the backstop for a guarantee to the European Investment Bank (EIB) and other implementing partners. EIB and the implementing partners are expected to support public and private investment with a multiplier effect comparable to EFSI. The use of guarantees will also be extended in the external sphere where it is proposed that an External Action Guarantee to be established by the Regulation on the Neighbourhood, Development and International Cooperation Instrument (NDICI)<sup>5</sup> provides a mix of guarantees and guaranteed loans for investments and macro-financial assistance in pre-accession, neighbouring and other countries.

These developments represent a qualitative change in the functioning of the EU budget. They require that the budget, and the provisioning of the guarantees that it supports, be resilient enough to absorb the losses that will potentially be incurred through defaulting financing of investments. This requires a rigorous approach to the design and implementation of guarantee programmes so that losses will not exceed available provisioning.

A second and crucial safeguard is the sound management of the provisions set aside in the EU budget to honour any calls on the budgetary guarantee by implementing partners. These provisions for the budgetary guarantees, financial assistance and financial instruments will be held in the Common Provisioning Fund (CPF). The CPF represents the liquidity cushion that protects the rest of the EU budget from the losses that materialise in the programmes, supported by budgetary guarantees. It will be sufficiently large to be able to withstand all calls on the guarantees under realistically imaginable scenarios.

The CPF is therefore not “just another” portfolio of assets owned by the EU budget. The assets of the CPF will underpin the system of budgetary guarantees and guaranteed loans

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<sup>3</sup> As of end-2019

<sup>4</sup> Partial common understanding of co-legislators on the Proposal for a Regulation of the European Parliament and of the Council establishing the InvestEU Programme (COM(2018) 439 final of 6 June 2018).

<sup>5</sup> Commission proposal for a Regulation of the European Parliament and of the Council establishing the Neighbourhood, Development and International Cooperation Instrument (NDICI) (COM(2018) 460 final). This proposed new instrument would include the External Action Guarantee as its guarantee facility.

that the EU budget will provide under the next MFF. It is critical that the assets in the CPF be synchronised with the liabilities stemming from the budgetary guarantees and guaranteed loans. The Commission is best-placed to play this role as it is the only institution with the full overview of the liabilities against which the assets must be managed. It is precisely because of its “systemic” importance for the EU budget, and its own institutional responsibilities that the Commission has decided to manage itself the assets of the CPF.

Article 212 of Regulation (EU, Euratom) 2018/1046 (“the Financial Regulation” or “FR”)<sup>6</sup> establishing the CPF provided for an evaluation to determine whether the management of the CPF assets should be carried out by the Commission, the EIB or a combination of the two. The purpose of this Communication is to present the conclusions of the evaluation, explain why the CPF should be managed by the Commission, and set out the next steps to prepare for the CPF to become operational by January 2021.

## **2. THE COMMON PROVISIONING FUND (CPF) AS THE CORNERSTONE OF THE EU’S NEW APPROACH TO PUBLIC FINANCE:**

### **2.1. What is the Common Provisioning Fund?**

The CPF will pool the provisions to cover the financial liabilities arising from a number of different budgetary guarantees, financial assistance and financial instruments. In particular, it will combine the provisioning for the following programmes: EFSI<sup>7</sup>, InvestEU, and the External Action Guarantee (including ex-EFSD<sup>8</sup> and External Lending Mandate). Moreover, the additional provisions for relevant new budgetary guarantees or financial assistance programmes and financial instruments could be accommodated within the CPF. Additional resources may also be transferred to the CPF from the provisions for existing financial instruments, or from other Commission policy instruments which have acquired a large outstanding portfolio of assets having the same investment universe as the CPF. In accordance with Article 9(1) of the partial common understanding of co-legislators on the Proposal for a Regulation of the European Parliament and of the Council establishing the InvestEU Programme, Member States may transfer the management of part of their Structural Fund resources that constitute the provisioning for the Member State compartment to the CPF.

The (adopted or proposed) legislative acts establishing EFSI, InvestEU and NDICI foresee a commitment amounting to several billion euros from the EU budget in provisioning to support a significant amount of guarantees and loans. Given the catalytic

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<sup>6</sup> Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012 (OJ L 193, 30.7.2018, p. 1). Title X lays down the provisions governing financial instruments, budgetary guarantees and financial assistance.

<sup>7</sup> Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Project Portal and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 — the European Fund for Strategic Investments (OJ L 169, 1.7.2015, p. 1).

<sup>8</sup> Regulation (EU) 2017/1601 of the European Parliament and of the Council of 26 September 2017 establishing the European Fund for Sustainable Development (EFSD), the EFSD Guarantee and the EFSD Guarantee Fund (OJ L 249, 27.9.2017, p. 1).

effect of EU programmes, this translates into a multiple volume of policy impact, primarily directed towards support for private and public investment.

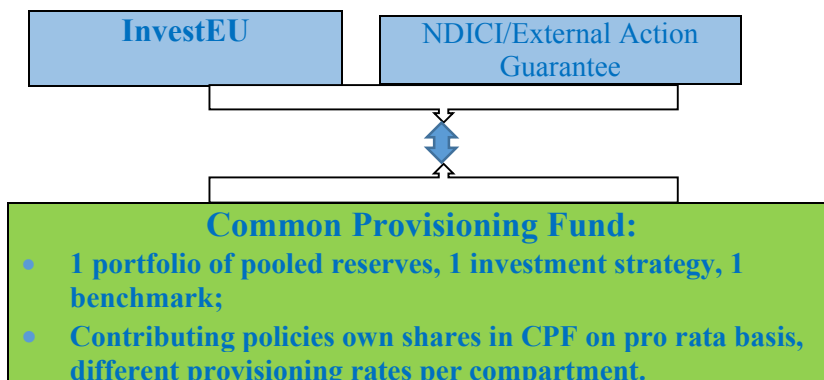
**Box: how does the Common Provisioning Fund work?**

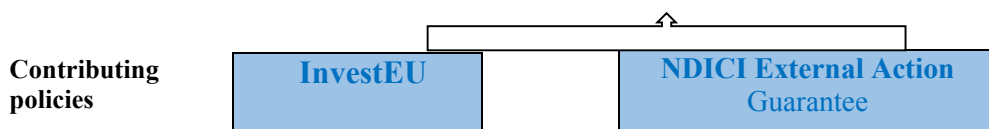
- The CPF pools the assets belonging to the EFSI, InvestEU and NDICI programmes. These assets will be invested by the CPF in financial securities (mostly bonds) until such time as the asset must be sold to meet a call on the guarantee by an implementing partner who has experienced a default in its portfolio of investment projects that they finance. Article 219(1) of the FR states that “guarantees are irrevocable, unconditional and on demand for all operations covered.”
- The multiplicity of different guarantees benefiting different implementing partners, supporting different types of investment in different geographies, implies a complex and uneven pattern of calls on the assets of the CPF. To ensure the robustness of the system of budgetary guarantees, it is crucial that guarantee programmes, subject to coherent risk-management and reporting, which ensure that losses remain within prescribed tolerance levels. Needs are to be serviced in full and promptly by a well-diversified and sufficiently liquid portfolio of assets in the CPF.
- In addition to careful design and oversight of the guarantee programmes, the CPF asset management will be organised to reflect the different dimensions of risk (time horizon, correlation of risk factors, liquidity, etc.) taking into account the characteristics of the full spectrum of guaranteed financing and investment operations.
- The CPF will not entail cross-subsidisation between the different policies that transfer assets to it. Instead, individual contributing policy instruments (such as InvestEU or EFSI+) will own a share of the assets of the CPF corresponding to their budgetary contribution. These assets will only be used to meet liabilities generated by the guarantees linked to that policy instrument – and will not be available to meet liabilities generated by other contributing policies. Consequently, the CPF will deliver the benefits of unified asset management without leading one policy instrument to cover losses incurred by another.

Below is a schematic representation of the CPF that shows how budgeted resources from contributing policy instruments will be used as the capital support for the guarantees granted to the implementing partners under InvestEU and NDICI.

**CPF: the capital base for budget guarantees**

**Guarantee Programmes: max aggregate budget commitment = ±EUR 100 bn**





## 2.2. What benefits will the CPF bring?

The pooling of the provisioning for different types of budgetary instruments via the CPF will deliver efficiency gains and allow more dynamic management of assets in three ways:

First, the management of financial assets exhibits scale effects with considerable efficiency gains as the volume of assets under management grows. This is due to high fixed costs in building the organisational capacity to perform asset management proficiently. This capacity comprises reliable portfolio management systems, data input and processing capacity, qualified staff to execute all functions subject to the required separation of duties, good governance systems and arrangements to ensure business continuity). However, once the infrastructure is in place, increasing the volume of assets under management comes with lower marginal costs. Therefore, this means lower costs relative to the volume of managed assets. Centralising asset management in the CPF will definitely lower the implementation costs for the EU budget and hence make more efficient use of scarce public resources.

Second, the CPF will combine provisions for several budgetary guarantees, financial assistance and financial instruments with different characteristics and risk and time-profiles. Such differences in risk and time-profiles means that the amount of the resources needed by a unified portfolio to meet guarantee calls in any given year could be lower than if each instrument set up individually met its guarantee calls separately. This benefit is reflected in the effective provisioning rate of the CPF as defined in Article 213 of the Financial Regulation.

Third, the CPF will be embedded in a framework linking the management of the provisions more closely with the profile and evolution of the contingent liabilities of the EU budget. Given increasing use of and experience with budgetary guarantees, the CPF will be managed dynamically so that the portfolio is adjusted to the evolving profile of the liabilities. This will allow the assets to be aligned better with the changing pattern of the liabilities, so that the CPF plays the role of liquidity cushion more effectively.

## 3. METHOD, CRITERIA AND OPTIONS OF THE EVALUATION:

### 3.1. Organisation of independent evaluation and criteria:

Given the importance that the CPF will play in the public finance architecture of the EU, Article 212 of the Financial Regulation provided for an independent evaluation to inform the Commission's decision on the identity of its asset manager. Article 212 of the Financial Regulation specifies the options to be considered:

1. CPF to be managed exclusively by the Commission;
2. CPF to be managed exclusively by the EIB;
3. Split the management between the Commission and the EIB.

Article 212 of the Financial Regulation also establishes the criteria for assessing the capacities of the two potential managers. These include criteria such as institutional set-up and governance, accountability and transparency, risk management, technical infrastructure, reporting, expertise of each organization, scalability, performance and costs for services given.

The independent comparative assessment<sup>9</sup> is published alongside this Communication. Its findings are based on extensive documentary review and in-depth interviews and meetings with staff of both the EIB and the Commission. Findings were discussed in a workshop bringing together representatives from the Commission and the EIB.

While the full evaluation is available on-line, the principal conclusions in respect of each of the dimensions of the analysis are as follows:

Criterion	Key findings:
<b>Institutional set-up and governance</b>	<p>Both EIB and the Commission have appropriate governance and organisational structures in place for their asset management activities, respecting good corporate governance principles with clear delegation of decision-making, adequate segregation of duties, clearly defined roles and well-defined and documented procedures and processes.</p> <p>Both institutions have sound procedures and codes for managing potential conflicts of interest.</p> <p>Both organisations follow good asset management principles and demonstrate commitment to industry best practice.</p>
<b>Accountability and transparency</b>	<p>There are clear lines of accountability in both organisations.</p> <p>The overall risk management and control structures at both organisations adequately cover their activities relating to the management of EU assets. The EIB could improve the cost transparency of its asset management activities.</p>
<b>Risk management and technical infrastructure</b>	<p>Both the Commission and EIB have properly documented risk management procedures that meet the standards that can be expected for asset managers of their stature.</p> <p>Both institutions have access to IT service capabilities that enable them to carry out their functions. Both have systems to ensure cyber-security and business continuity.</p>
<b>Reporting</b>	<p>Both parties produce clear, well-structured and insightful reports. Information on outsourced portfolios is provided mainly on a quarterly basis, for risk and performance information, and complemented by report on Portfolio Holdings on a monthly basis. This is in line with the reporting requirements which have been set out in inter-institutional agreements but higher frequency reporting (on a monthly basis) is typical among peers.</p>
<b>Expertise</b>	<p>Both organisations have highly qualified and experienced asset managers with relevant professional experience and academic/technical qualifications.</p>
<b>Scalability</b>	<p>From the infrastructure point of view, both organisations can handle the anticipated increase in Assets Under Management following the creation</p>

<sup>9</sup> Carried out by ICF in association with Keypoint Financial.



	of the CPF.
<b>Historical Performance<sup>10</sup></b>	The evaluation compared performance of 2 Commission portfolios with 2 similar (same length of time and similar asset management guidelines and investment universe) EIB portfolios. The 2 Commission portfolios <sup>11</sup> produced higher returns (a cumulative gain of 23.4% and 24.2% over the 10 years to June 2019) than the EIB portfolios (20.61% and 12.4%)
<b>Historical costs</b>	The Commission is found to have performed its role as asset manager at lower cost than the fees charged by the EIB (0.03% per billion vs 0.05% per billion). <sup>12</sup>

The Commission has delivered comparable returns at a lower cost. The governance process and technical infrastructure for asset management in both the Commission and EIB are “fit for purpose”. The Commission is seen to be more accountable and transparent to the Parliament, the Council, and the European Court of Auditors. The EIB enjoys advantages stemming from its expertise in repos and the existence of the internal rating model, which are relevant for some specific financial transactions.

### **3.2. Commission assessment of the options:**

The Commission believes that the findings of the evaluation relating to cost, efficiency and transparency mean that keeping CPF asset management under the direct responsibility of the Commission is a better option than the alternatives.

#### **a) Split responsibility for CPF management (option 3):**

The independent evaluator sees possible dynamic advantages in dividing responsibility for the CPF portfolio between the Commission and EIB. These comprise potential benefits of risk diversification (not putting all eggs in one basket) and maintaining inter-institutional competition to curb inertia.

The Commission considers that these advantages are intangible and speculative. They would almost certainly be outweighed by the technical and operational difficulties that would hinder its duty to oversee the CPF. If the Commission and EIB managed part of the assets separately, complex reconciliation processes would be needed for accounting and performance reporting purposes. A split management would also require an integrated risk management framework to calculate and establish consolidated risk and performance metrics for the single unified portfolio. The end-result would be portfolio management processes that would be complex, time consuming, prone to operational issues and information may not be available on a timely basis.

The Commission believes that this option does not represent a sound basis for organising the management of such an important portfolio. Competition between the Commission and EIB should not be achieved by splitting the CPF mandate but through a judicious

<sup>10</sup> Past performance is not a reliable indicator of future performance.

<sup>11</sup> European Coal and Steel Community (in liquidation) funds and RCAM portfolio managed for the Joint Sickness Insurance Scheme. The EIB portfolios were the GF-EIB and RSFF-EIB, a Guarantee Fund for external actions and Risk Sharing Finance Facility respectively.

<sup>12</sup> The EIB did not provide the cost figures to the study team. Therefore, the fees charged by the EIB were compared with the costs of the Commission.

allocation of investment mandates in ways that play to the strengths and interests of the Commission and EIB.

### **b) Choice between the Commission and EIB:**

The Commission is of the view that the choice lies between assigning responsibility exclusively to the Commission or to EIB – two proven asset managers with long and distinguished track records in managing assets on behalf of the EU. Both have developed strong capacities and put in place sound management processes.

The evaluation confirms that both organisations are capable of managing CPF assets. Both organisations perform well in terms of governance structure and accountability framework for asset management, IT infrastructure, expertise, overall performance against objectives, risk management or reporting capabilities. Both organisations have also demonstrated the capacity to scale up their operations to handle the significant increase in the size of assets under management implied by the CPF.

The main distinguishing considerations emerging from the independent evaluation are:

1. **Costs:** the independent assessment shows that the Commission can manage this activity at a lower cost. The cost of the solution of keeping CPF management with the Commission is estimated to be lower than if assets are entrusted to EIB. The estimated cost (EUR [4.8] million per year) of option 1 whereby the assets of the CPF are managed in-house by the Commission is significantly lower in absolute and relative terms as compared to the estimated costs of option 2 (EUR [9.9] million per year) whereby the assets of the CPF are managed by EIB.
2. **Performance:** based on the track-record for comparable portfolios with longer history, the returns generated by the Commission are higher than those generated by EIB.

## **4. STRATEGIC CONSIDERATIONS REGARDING CPF ASSET MANAGEMENT:**

The evaluation cannot be based solely on a static rear-view mirror perspective. It must also look at the architecture that makes most sense for the future management of the contingent liabilities and the related assets from the perspective of the protection of the EU budget. There is a paramount need to protect the EU budget against the risk that losses incurred under the guarantee programmes exceed the assets available in the CPF to meet these calls. The decision on the CPF asset manager should take account of who has the strongest incentives and most cost-effective means to do this.

### **4.1. Liability-driven asset management**

The increased recourse to budgetary guarantees and financial assistance create bigger contingent liabilities for the EU budget. The Commission is as a consequence strengthening its capacity to steer, oversee and implement budgetary guarantees in order to avoid any unforeseen impacts on the EU budget. In particular, the Commission is enhancing its corporate capacity to comprehensively assess, manage and measure contingent liabilities and to map the underlying risk patterns of these contingent liabilities onto the investment strategy that is used to manage the associated provisions. In concrete terms, it will use the insights that it gains from its closer involvement in

framing guarantee programmes to determine the level of provisions needed by the CPF and define the CPF investment strategy and asset allocation.

Centralisation in the management of assets will bring significant efficiency gains. It will also require the Commission to properly design and implement a single investment strategy, which caters for the underlying needs (and constraints) of the different guarantee programmes. This should deliver at the very least capital preservation with the possibility for additional returns if market conditions allow.

The Commission is ultimately responsible for ensuring that the asset management of the CPF is properly aligned with the need to cover any financial liability arising from financial instruments, budgetary guarantees or financial assistance. To do this properly, the Commission must define and implement the investment strategy in a way that is aligned with the evolving profile of the liabilities incurred by the guarantee programmes. There are 4 reasons why it makes sense for the Commission to play this role:

1. given its “systemic” importance for the EU budget, the Commission has a particular responsibility for the sound management of the CPF and must account for this to the Parliament, the Council and the Court of Auditors. This is reflected in the fact that, pursuant to the Article 213(5) of the Financial Regulation, the Commission must itself define and oversee the investment strategy for management of CPF assets. The Financial Regulation leaves no flexibility on this. It then makes sense to also keep direct control over the implementation of this investment strategy. Delegating this residual function to EIB would only create transaction and coordination costs for no material gain.
2. the multiplicity of implementing partners involved in the InvestEU and NDICI programmes in the future means that only the Commission is well placed to pull together the needs and experience of the different implementing partners and programmes in a unified liability-driven asset management strategy;
3. as it negotiates guarantee agreements with the different implementing partners, the Commission will gain first-hand experience of the risk factors driving the credit risk of the guaranteed portfolios. For example, risk exposures to beneficiaries outside the EU will be subject to different macroeconomic developments than within the EU. The same is true for different industry sector-specific exposures. The Commission will be well placed to reflect these risk factors across all the contingent liabilities covered by the CPF into an investment strategy that captures the key risk dimensions;<sup>13</sup>
4. the investment strategy of the CPF will need to integrate operational knowledge regarding programme implementation. The Commission will be able to manage the feedback from programme implementation to strategy, and to adapt the latter in response to the evolving realities and constraints encountered by programmes on the ground. This will be vital to ensure that the investment strategy for the CPF as designed by the Commission properly reflects the true profile of risks incurred across all guarantees.

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<sup>13</sup> In particular, the Commission will be able to translate the experience regarding such risk factors across all the contingent liabilities covered by the CPF into a well diversified portfolio (e.g. in terms of asset classes) which exhibit relatively low correlations with the risk factors underlying contingent liabilities.

## **4.2. Accountability/transparency:**

The close linkage between the management of the contingent liabilities and the endowment of the CPF is also reflected in the reporting obligations for the Commission to the European Parliament and the Council under Art 214 and Art 250 of the Financial Regulation.

As Financial Manager for the CPF the Commission must report and account to the European Parliament, the Council and the Court of Auditors for management of the assets in CPF. Direct Commission management increases the ability to account fully and promptly for costs and performance to all institutional stakeholders.

## **5. CONCLUSION:**

The independent evaluation finds that both the Commission and EIB have long and distinguished track records in managing assets on behalf of the EU. Both have developed strong capacities and put in place good sound management processes. Both have the systems and know-how to take on responsibility for management of the CPF. The analysis of the track record of both the Commission and EIB finds that the Commission has delivered higher returns on comparable portfolios at lower cost to the EU budget. Section 4 explains why there is a need for a strong and central role for the Commission at the heart of this system of contingent liabilities and related asset management. The Commission needs to take active and full responsibility for both the design of sound budgetary guarantees and the management of the assets that underpin those guarantees. This will enhance its ability to account to the Parliament and the Council for its activities in this role.

This decision should also be seen in the wider context of the allocation of responsibilities between the different actors in the sphere of EU public finance. In this regard, the EIB group has a special role for the implementation of budgetary guarantees under InvestEU and as a leading partner for external guarantees.

This is why the Commission has concluded that the best course of action is for it to retain direct responsibility for setting the investment policy and managing the assets of the CPF. Article 317 of TFEU confers to the Commission responsibility for implementing the budget of the European Union, a task which includes also treasury and asset management; therefore, no legislative act is needed to entrust the Commission with the management the CPF assets.

## **6. NEXT STEPS:**

The CPF must be ready to start investing assets once resources are pooled from the contributing policies under the new MFF. The Commission is therefore planning and preparing so that the legislative and operational arrangements for managing CPF are in place in good time.

Alongside this Communication, the Commission is also adopting the asset management guidelines which will frame a prudent and stability-oriented investment objective for the CPF, and establish robust decision-making and reporting provisions to govern its operations. This foresees the preparation of an investment strategy, comprising a strategic asset allocation to provide guidance on the target composition of the portfolio and a

related benchmark for the purposes of comparative performance, all to be delivered in the second half of 2020.

Later this year, the Commission will adopt a Delegated Act to set the Effective Provisioning Rate for the CPF (in accordance with Article 213(2) of the Financial Regulation).

Alongside this work, the Commission is building consistent risk management approaches and reporting systems for InvestEU and EFSD+ guarantee programmes to ensure that the management of the liabilities and of the CPF assets go hand in hand. This parallel work on risk management methodologies and processes will generate the forecasts of inflows and outflows that are needed to construct and adapt a well-calibrated investment strategy and suitable benchmark for the CPF.

Given the importance of the CPF, as the largest portfolio of EU assets and as the anchor for the system of liabilities, the Commission will report on progress in building this framework by end-2020. From mid-2021 onwards the Commission will produce an annual report on the sustainability of the system of liabilities created by the financial instruments, budgetary guarantees and financial assistance foreseen by Article 250 of the Financial Regulation.