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REPORT FROM THE COMMISSION TO THE COUNCIL

**on the five yearly review of the multiannual financial guidelines for managing the assets
of the ECSC in liquidation and, on completion of the liquidation, the Assets of the
Research Fund for Coal and Steel**

July 2012

Introduction

Council Decision 2003/77/EC of 1 February 2003 lays down multiannual financial guidelines for managing the assets of the ECSC in liquidation and, on completion of the liquidation, the Assets of the Research Fund for Coal and Steel (financial guidelines)¹.

Article 2 of this Council Decision states that the Commission shall reassess the operation and effectiveness of the financial guidelines every five years and shall propose amendments if appropriate.

Following the first review undertaken in 2007, the Council Decision was amended on 15 September 2008 (See Council Decision 2008/750/EC²). The amendments were largely of a technical nature and more specifically, concerned clarifications of certain definitions, namely the maturity concept of a bond, which was refined to cover the definition used in the case of asset-backed securities (ABS), the definition of government issued or government guaranteed securities and the definition of "debt" issued by banks. The rules for sale and repurchase operations were brought in line with market standards. In addition, certain rating-related provisions were clarified and the maximum maturity permitted was extended by six months to take account of the changing issuance pattern of EU Member States. Finally, some accounting provisions were updated to reflect the move to internationally accepted accounting rules for the whole Commission.

This report sets out the assessment of the operation and effectiveness of the financial guidelines for the five-year period 2008 – 2012.

Operation and effectiveness of the financial guidelines in the five-year period 2008 – 2012

According to Council Decision 2003/77/EC, as amended by Council Decision 2008/750/EC, the Commission shall manage the assets of the ECSC in liquidation so "that funds are available as and when needed, while still generating the highest return available, consistent with maintaining a high degree of security and stability over the long-term." (point 3 of the Annex to the Council Decision 2003/77/EC)

In view of these objectives, the financial guidelines have worked well during the 5-years period 2008 – 2012, despite a challenging market environment related to the global financial and debt crisis.

Despite the significant deterioration of the financial markets, no defaults were experienced in the assets under management (as of June 2012) and, furthermore, the return of the portfolio was satisfactory. In particular, during the period between 1 January 2008 and 30 June 2012, the portfolio provided a cumulative return of 19.5% or an annual average of 4% from a high quality/low risk portfolio. Details on the composition of the portfolio assets are provided in the Annex.

¹ OJ L 29, 5.2.2003, p. 25.

² Council Decision 2008/750/EC of 15 September 2008 amending Decision 2003/77/EC laying down multiannual financial guidelines for managing the assets of the ECSC in liquidation and, on completion of the liquidation, the Assets of the Research Fund for Coal and Steel (OJ L 255, 23.9.2008, p. 28).

Thus, the capital of the portfolio was not only preserved but augmented. The market value of the portfolio at 30 June 2012 stood at EUR 1.74 billion whereas at 31 December 2007 it stood at EUR 1.46 billion.

In the period under review, the portfolio received contributions from new Member States in the order of EUR 152.28 million while it provided a total of EUR 229 million to be used for continuation of research in the sectors related to the coal and steel industry, as foreseen in the Council Decision 2003/77/EC.

During the assessment period, the existing financial guidelines provided an effective basis for a prudent asset and risk management framework which is continuously being reviewed and adjusted to market developments and industry standards.

The adherence to the risk management framework of the Commission is monitored continuously by a dedicated risk management function which is independent from the asset managers and reports directly to senior management.

In addition to the existing risk monitoring and control framework, risk and asset management systems and procedures are subject to regular internal and external audits. No issues have been raised by private external auditors relating to the management of the fund and the approach to managing the impact of the crisis. In addition to the private external auditors the management of the ECSC i.L. is also regularly audited by the European Court of Auditors. These reports contain no recommendation concerning the Financial Guidelines of the ECSC i.L.

Conclusion

On the basis of the above, the Commission is of the opinion that there is no need to change the current financial guidelines. Together with the Commission's risk management framework which is continuously being reviewed and adjusted as required, the current financial guidelines have worked satisfactorily during the period under review. The portfolio achieved a positive overall return that compares favourably with its market benchmark and has exhibited security and stability over the long-term.

ANNEX

Annex 1.a - Portfolio Structure as of 30.06.12

Company Code: **ECSC**

a) PORTFOLIO STRUCTURE AS OF 30/06/12

Portfolio	Market Value w/o accrued interests	Market Value with accrued interests	30/06/2012
Bonds	1,454,273,591	1,476,771,277	85%
Subtotal Bonds	1,454,273,591	1,476,771,277	85%
<i>Cash (See table c)</i>	262,339,281	262,339,281	15%
TOTAL	1,716,612,872	1,739,110,558	100%

b) PORTFOLIO DURATION

	Current 30/06/12
<i>Modified Duration</i>	(2.62*)
	2.24

(*) bond part only

c) CASH STRUCTURE

	Current 30/06/12
Money market Deposits	261,800,000
Accrued Interests	209,468
Nostro Accounts*	329,813
TOTAL	262,339,281

Annex 1.b - Portfolio Structure as of 31.12.08

a) PORTFOLIO STRUCTURE AS OF 31/12/08

Portfolio	Market Value w/o accrued interests	Market Value with accrued interests	31/12/2008
Bonds	1,431,863,320	1,463,674,511	93%
Subtotal Bonds	1,431,863,320	1,463,674,511	93%
<i>Cash (See table c)</i>	106,935,595	106,935,595	7%
TOTAL	1,538,798,915	1,570,610,106	100%

b) PORTFOLIO DURATION

	Current 31/12/08
<i>Modified Duration</i>	(3.99*)
	3.72

(*) bond part only

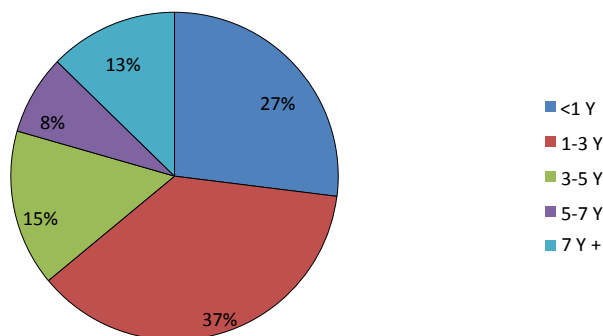
c) CASH STRUCTURE

	Current 31/12/08
Money market Deposits	100,600,000
Accrued Interests	243,897
Nostro Accounts*	6,091,697
TOTAL	106,935,595

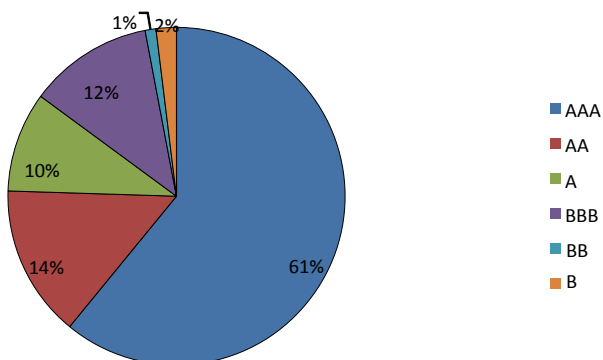
Annex 2.a - Bond Portfolio Structure as per 30.06.2012

Bond Portfolio Structure by Maturity, Rating and Industry
Company Code: ECSC: 30/06/12

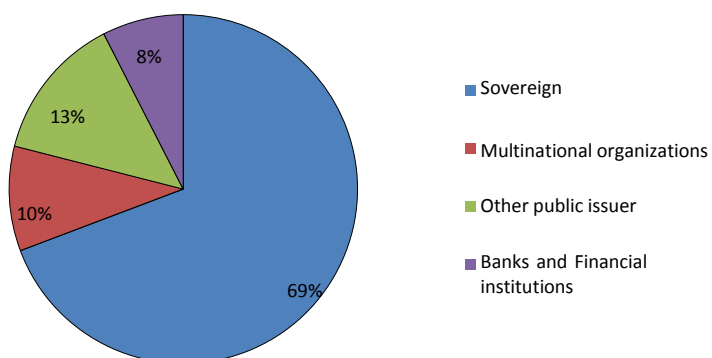
Bond Portfolio Structure by Maturity



Bond Portfolio Structure by Rating



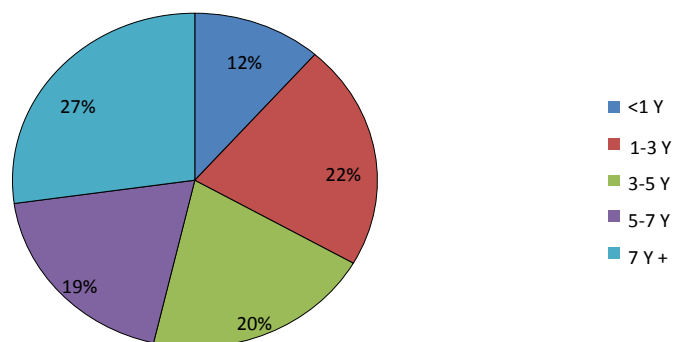
Bond Portfolio Structure by Industry group



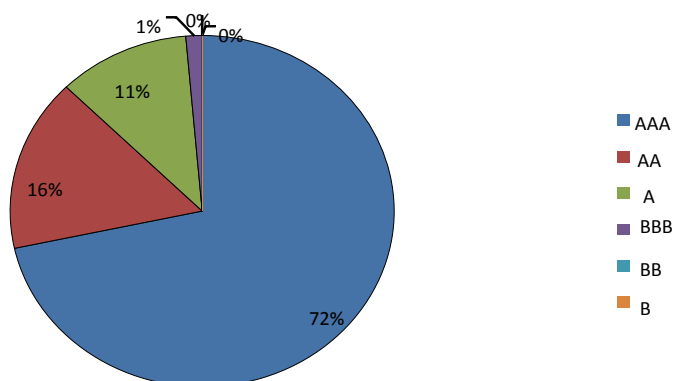
Annex 2.b - Bond Portfolio Structure as per 31.12.2008

Bond Portfolio Structure by Maturity, Rating and Industry
 Company Code: ECSC; 31/12/08

Bond Portfolio Structure by Maturity



Bond Portfolio Structure by Rating



Bond Portfolio Structure by Industry group

