Bundesministerium
für Wirtschaft
und Energie

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Economic Stabilisation Fund

Factsheet on the standard product 'guarantees for corporate bonds'

Objective

The purpose of the Economic Stabilisation Fund (ESF) is to stabilise companies in the real economy by helping them to overcome liquidity bottlenecks and by creating a policy environment conducive to strengthening the capital base of companies whose failure would have a significant impact on the economy, technological sovereignty, security of supply, critical infrastructure or the labour market. Companies can only receive assistance from the Economic Stabilisation Fund can if no other financing options are available.

The Economic Stabilisation Fund addresses the capital requirements of companies which meet the size criteria under Section 16(2) Stabilisation Fund Act (*Stabilisierungsfondsgesetz – StFG*) or the exemption criteria under Section 21(1) sentence 2 StFG, from a volume of €5 million.

To this end, the Economic Stabilisation Fund also assumes guarantees for bonds to be issued by the eligible companies, in order to eliminate liquidity bottlenecks and support financing on the capital market.

The support generally takes the form of a guarantee of up to 90% of the nominal value of the issue in the form of collateral from the Economic Stabilisation Fund.

Eligibility

Applications can be submitted by companies in the real economy.

In principle, support will be granted to large companies if they have met at least two of the following three criteria in the two financial years prior to 1 January 2020:

1. a balance sheet total exceeding €43 million
2. sales revenues exceeding €50 million and
3. a workforce of more than 249 employees on an annual average

Only companies may apply which have on, or at least temporarily after 31 December 2019, not been classed as an undertaking in difficulty as defined by the European Union (definition according to Article 2 point 18 of Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty on the Functioning of the European Union - OJ L 187, 26.06.2014, p. 1).

Proposals

Issue of a non-subordinated bond/unsubordinated debt for the financing of investments and/or working capital.

The replacement of or direct follow-up financing for existing loans including bonds that have already been issued is generally excluded.

Guarantees will only be issued for bonds which, given their unit size and target market criteria, are exclusively geared towards subscription by investors. No guarantees will be issued for bonds that are also available for subscription or purchase by private investors.

Guarantees are provided for both bearer or registered bonds, whether secured or unsecured. No listing on the stock exchange is required.

Further to the basic €5 million threshold (see above), there is no separate minimum volume for the bond issue to be guaranteed.

The bond issue must be made by 31 December 2021 at the latest.

The term of the bond to be guaranteed may not exceed 5 years. It is permissible for the bond to be issued in tranches of different maturities. Agreements on early repayment set out in the bond conditions are also allowed.

Guarantee for corporate bonds

Guarantees are provided for a maximum of 90% of the default on the principal claim. The guarantee covers both the principal amount and the interest. Further costs are not covered by the guarantee. Defaults on the claim are borne by the Economic Stabilisation Fund and the creditors on a pro rata basis and on equal terms.

If the bond can be subscribed to or acquired by more than one creditor, a security trustee must normally be appointed by the issuer of the bond. The guarantee from the Economic Stabilisation Fund is issued to the security trustee for the account of the bondholders.

The amount is limited to a maximum of twice the amount of the wage and salary payments including social security contributions or 25% of the borrower's sales revenues in 2019.

A guarantee fee is payable for the issuance of the guarantee. The amount of the guarantee fee is based on the remuneration that would have to be paid by the issuing company on the capital market if no guarantee from the Economic Stabilisation Fund were put in place. This total remuneration is to be divided appropriately between the costs and risks to be borne by the bond creditor and the Economic Stabilisation Fund.

The event of loss is deemed to have occurred 30 days after the bondholders' right to call for early repayment has accrued due to the incidence of any standard circumstances to be defined in the bond terms and conditions, such as a default in payment with interest/repayment of more than 30 days, general suspension of payments, insolvency proceedings or foreclosures initiated against the bond debtor above a minimum amount.

The claims under the guarantee expire if the rights under the guarantee are not asserted immediately after the occurrence of the event of loss, at the latest, however, six months after the occurrence of the event of loss.

Upon payment under the guarantee, the corresponding bond claims must be assigned to the Economic Stabilisation Fund.

Special conditions

Different conditions apply during the term of the bond, which are described in detail in the ESF implementing ordinance. These include:

During the term of the guarantee from the Economic Stabilisation Fund, the borrower is prohibited from repurchasing his own shares and from paying dividends or other capital distributions.

During the term of the guarantee, no bonuses or other variable or comparable remuneration components may be granted to members of executive bodies or to executive directors, including any remuneration from other parts of the company group. Likewise, no special payments in the form of share packages, gratuities or other separate remuneration in addition to fixed salaries, other compensation components placed at the discretion of the company or severance payments that are not legally required may be granted.

A shareholder contribution commensurate with the structures and financial circumstances is generally required (to at least the amount of a distribution to shareholders in 2020).

In the case of companies which are members of a company group, a guarantee or other joint obligation on the part of the parent company is generally required.

Debt rescheduling is generally excluded.

The company's existing lines of credit must generally be fixed until at least the end of 2022.

Combining ESF stabilisation measures with funding programmes

It is possible to combine a stabilisation measure from the ESF with other funding programmes, to the extent that this is compatible with the requirements of EU state aid law.

State aid

The granting of guarantees for corporate bonds by the ESF at the conditions described above is based on the 'COVID-19 measures of the Economic Stabilisation Fund' (state aid SA.56814) approved by the European Commission by letter dated 8 July 2020.

Legal entitlement

There is no legal entitlement to the stabilisation measure. The bodies under the Stabilisation Fund Act make decisions in the due exercise of their discretion within the scope of the available funds.