

Yale University

EliScholar – A Digital Platform for Scholarly Publishing at Yale

YPFS Documents

[Browse by Media Type](#)

2008

FAQ of Fondo de Adquisicion De Activos Financieros

Spain : Ministerio de Economia y Competitividad/Ministry of Economy and Competitiveness

Spain: Ministry of Economy and Finance: Fondo para la Adquisicion de Activos Financieros (FAAF)/ Fund for the Acquisition of Financial Assets

Follow this and additional works at: <https://elischolar.library.yale.edu/ypfs-documents>

Recommended Citation

Spain : Ministerio de Economia y Competitividad/Ministry of Economy and Competitiveness and Spain: Ministry of Economy and Finance: Fondo para la Adquisicion de Activos Financieros (FAAF)/ Fund for the Acquisition of Financial Assets, "FAQ of Fondo de Adquisicion De Activos Financieros" (2008). *YPFS Documents*. 3898.

<https://elischolar.library.yale.edu/ypfs-documents/3898>

This Document is brought to you for free and open access by the Browse by Media Type at EliScholar – A Digital Platform for Scholarly Publishing at Yale. It has been accepted for inclusion in YPFS Documents by an authorized administrator of EliScholar – A Digital Platform for Scholarly Publishing at Yale. For more information, please contact elischolar@yale.edu.



[Home](#) [Map](#) [Castellano](#) [Català](#) [Euskara](#) [Galego](#)

[Regulation](#)

[Governing Bodies](#)

[Advisory Board Agreements](#)

[Auctions](#)

Frequently-asked questions

What is the FAAF?

The Financial Assets Acquisition Fund (FAAF), created under Royal Decree-Law 6/2008 and developed under Order EHA/3118/2008, is a Fund with no legal personality, assigned to the Spanish Ministry of Economy and Finance and with an initial endowment of € 30 billion, which may be increased up to € 50 billion, for acquisition of top quality financial assets under the criteria of objectivity, security, transparency, efficiency, profitability and diversification, in an effort to foster funding to non-financial companies and households established in Spain.

Why was the FAAF created?

The FAAF was created in response to the shortage of interbank funding that, by preventing credit institutions from receiving funding on capital markets, has significantly decelerated the supply of credit to non financial companies and households. Despite the strength and solvency of the Spanish credit institutions, they have not remained unscathed from the difficulties in access to funding. The FAAF was created to foster such funding .

Therefore, the FAAF has come about as a response to a market failure rather than a bailout measure targeted at any specific institution. Thus, it seeks to help activate the flow of credit to companies and individuals that credit institutions grant .

The FAAF as an instrument for liquidity

The creation of the FAAF aims to stimulate credit approvals by credit institutions to non-financial entities, companies and households. Therefore, up to 50 billion Euros will be injected over the upcoming months through the acquisition of top quality financial assets from credit institutions, which will allow them to mobilise assets from their balance sheets and generate the liquidity needed to continue lending to the resident private sector.

One specific objective of the FAAF is to foster the creation of new credit. To this end, up to 25% of the total volume awarded in the auctions (the so-called non-competitive tranche) will be set aside for award to the institutions depending on their contribution to new credit to "other resident sectors", i.e. non-financial companies and households .

The FAAF is not a bailout plan nor a Toxic Asset Rescue Program

The FAAF is neither a bailout plan nor a toxic asset rescue program for acquiring toxic or risky assets.

On the contrary, the FAAF is a mechanism established to deal with the transitory liquidity "crunch" or shortage on the international capital markets, and it intends to provide, to a certain extent, this source of funding for credit institutions. Therefore, it provides medium-term credit (over one year, in any case) to credit institutions through outright or repurchase transactions (repos) of top quality assets that are, or will be, traded on regulated markets.

Hence, the FAAF is not aimed to support any specific financial institution, but rather attempts to provide a solution to the shortage of supply of credit on the capital market.

In addition, it only acquires top quality assets, rated as AAA grade for outright purchases and AA grade for repurchase agreements, with such grades given by at least one credit rating agency of recognised standing. Combined with the exigence that the purchased assets must have been issued after August 1st 2007 for repos and after October 15th 2008 for outright orders, this excludes the so-called "toxic assets" from the possible assets that could be purchased by the Fund.

How much will the FAAF cost citizens?

The FAAF is designed in such a way that it is expected to be profitable, and therefore it does not represent any foreseeable expense whatsoever for taxpayers, quite the opposite. Thus, the interest rate the FAAF obtains through the purchase of assets at the auctions will be higher than the State's equivalent funding cost, which is the cost for Government Debt cost issued for the same maturity.

How is the FAAF financed ?

The FAAF will be financed by Government Debt, whose yield will determine the minimum interest rate at which the FAAF must acquire the assets from credit institutions through the auctions.

What are the governing bodies for the FAAF?

As set forth under Royal Decree-Law 6/2008 and Order EHA/3118/2008, the FAAF is attached to the Ministry of Economy and Finance, through the Secretary of State for the

Frequently-asked questions

Economy, under the charge of the Treasury and Financial Policy General Directorate .

The Ministry of Economy and Finance, through an Advisory Board and its Executive Committee, is responsible for the administration and management of the FAAF.

Moreover, the Executive Committee shall receive any advice it deems necessary, and specifically, it will have support from a technical committee made up of representatives from the Treasury and Financial Policy General Directorate, the Instituto de Crédito Oficial (Official Credit Institute), Banco de España (Bank of Spain) and the CNMV (Spanish Securities and Exchange Commission).

Who are the members of the Advisory Board what are its duties?

The Advisory Board is the top governing body of the Fund and its composition and duties are set forth under Royal Decree-Law 6/2008.

Therefore, its duties include establishing the FAAF investment guidelines, monitoring and evaluating the FAAF's activities, deciding on the application of the yields from the assets, as well as the product of their maturity or sale, approving its operating and capital budgets and approving the four-monthly reports on the FAAF management .

It comprises:

- . Minister of Economy and Finance (President)
- . Secretary of State for the Economy
- . Secretary of State for Finance and Budget
- . President of the Instituto de Crédito Oficial (Official Credit Institute)
- . State General Controller (Abogado General del Estado)
- . State General Counsel (Interventor General del Estado)
- . Director General of the Treasury and Financial Policy (acting as Secretary of the board, with speaking privileges but no voting rights)

Its legal status for action shall comply with the terms of chapter II, title II of the Legal Framework of the Public Administration and Common Administrative Procedure Law 30/1992, of November 26th.

Who are the members of the Executive Committee and what are its duties?

The Executive Committee's duties are set forth under Royal Decree-Law 6/2008. Its composition was determined under the first Agreement of the Advisory Board, dated October 27th 2008 (Treasury and Financial Policy Department Resolution from October 31st 2008).

Therefore, its duties include performing, in accordance with the Advisory Board's guidelines, the acquisition, disposal, use and management of the financial assets of the FAAF, preparing the proposal for the operating and capital budgets and preparing the four-monthly report on the FAAF management.

It comprises :

- . Secretary of State for the Economy (President)
- . Director General of the Treasury and Financial Policy
- . Director General of Insurance and Pension Funds
- . Representative of the State General Legal Service
- . Representative of the Instituto de Crédito Oficial (Official Credit Institute)
- . Representative of the State Financial Controller (IGAE) with speaking privileges but no voting rights
- . Member of the Treasury and Financial Policy General Directorate, acting as Secretary with speaking privileges but no voting rights

Its legal status for action shall comply with the terms of chapter II, title II of Law 30/1992.

Who are the members of the technical committee and what are its duties?

Its composition and duties are established under Order EHA/3118/2008 .

Therefore, it is responsible for providing technical advice to the Executive Committee in the course of its duties and for making reasoned proposals to the Executive Committee on the awards to be made at each auction.

It comprises :

- . Director General of the Treasury and Financial Policy (President)
- . 3 representatives of the Banco de España (Bank of Spain)
- . 2 representatives of the Comisión Nacional del Mercado de Valores (CNMV)
- . 2 deputy directors general of the Treasury and Financial Policy General Directorate (one of them acting as secretary of the committee)
- . 1 representative of the Instituto de Crédito Oficial (ICO)

Which institutions can sell assets to the FAAF?

Credit institutions domiciled in Spain and Spanish branches of foreign credit institutions can enter the FAAF auctions. Therefore, the FAAF is open to banks, savings banks, credit cooperatives and financial credit establishments. However, to participate in the auctions, they must declare their interest in advance through the procedure set forth in the auction announcement.

How does the FAAF purchase assets ?

The FAAF purchases financial assets in both outright and repurchase orders by carrying out auctions .

The objective of the auction is that the credit institutions themselves should compete for the FAAF funds and that this competition is what determines the interest rate. Hence, the aim is to efficiently assign the FAAF funds

In addition, Order EHA/3118/2008 establishes that the FAAF can set aside part of the funds supplied in the auction to a non-competitive tranche. In this case, the award shall be in proportion to the contribution made by the applicant institutions to the growth of credit in the resident private sector. The interest rate at which the non-competitive bids are awarded is the lowest one from the competitive tranche of the auction, in an effort to motivate the

institutions to grant new credit .

Why auctions?

The auction is a mechanism open to competition and using market criteria, through which the credit institutions bid for the FAAF funds .

The institutions must present their bids specifying the interest rate and amount of the bid, for the competitive auctions. These offers are classified by interest rate, from higher to lower, and awarded on the basis of the maximum volume of funds to be acquired by the FAAF, until the available funds at the auction are allocated. In the event that the requests exceed the volume auctioned off by the fund, they will be calculated on a pro rata basis consequently .

Why is there a non-competitive tranche?

In order to stimulate the creation of new credit on the actual economy, Order EHA/3118/2008 sets forth that the FAAF can set aside part of the funds supplied, up to 25%, for the so-called "non-competitive tranche" of the auction .

This tranche of the auction is awarded to institutions on the basis of their contribution to new credit granted to the resident private sector, at the marginal interest rate (the lowest interest rate) of the awards from the competitive tranche of the auction .

How long will the FAAF last?

Royal Decree-Law 6/2008 and Order EHA/3118/2008 set forth the conditions for the duration of the FAAF .

Therefore, the FAAF cannot hold auctions after December 31st 2009. Likewise, the Council of Ministers shall be responsible for deciding on the early expiry and settlement of the FAAF, when economic reasons justify it and the Delegate Commission for Economic Affairs has issued its report. Hence, this is a transitory measure with a limited lifetime and it will expire when the market failure that justifies its existence disappears .

What are outright orders?

Outright orders are transactions in which the FAAF acquires assets from the applicant institutions. Because they are outright orders, the FAAF will acquire top quality assets, observing security principles of the assets. The FAAF, however, reserves the right to sell these assets to the market before their maturity date.

What are repurchase orders?

The repurchase order is a transaction in which the institution selling the asset commits to re-purchasing it for the price agreed and after a certain period of time. This transaction is very similar to a secured loan that the FAAF (Financial Assets Acquisition Fund) grants to the credit institutions that attend the auction.

Therefore, once the volume and interest rate of the assets that the FAAF acquires from each entity have been determined, this operation is made for a fixed period of time, in any case over shall one year, during which the FAAF disposes of a series of assets furnished by the institution as a guarantee.

When the transaction period expires, the institution pays the amount back to FAAF and FAAF returns the guarantee assets to the credit institution.

What assets does FAAF purchase?

The FAAF shall purchase Cédulas Hipotecarias (Covered Bonds) and specific securitisation bonds. Only top quality assets, graded by their rating, granted by at least one of the recognised credit rating agencies, are eligible for the FAAF. Therefore, the Fund shall only buy AAA rated assets for outright orders and AA or similar rated assets for repurchase orders.

In addition, the assets must be traded in regulated markets. The assets that the FAAF acquires are therefore subject to the strict regulation of the CNMV (Spanish Securities and Exchange Commission) in relation to the issuance of assets subject to trading in the regulated markets.

What are Cédulas Hipotecarias or Covered Bonds ?

Cédulas Hipotecarias or Covered Bonds are fixed-income securities issued by the credit institutions and backed by their entire portfolios of mortgage loans. This is why these assets enjoy double backing, the one that comes from the mortgage loans that back their issuance and the one that stems from the issuing institution.

In addition, this backing is strengthened by the overcollateralisation arising from the regulation in force, which establishes that the volume of covered bonds issued by an institution and not overdue cannot exceed 80% of the capital amounts not repaid of all the institution's mortgage loans capable of serving as coverage .

As regards transparency, it should be pointed out that the institutions issuing the covered bonds or cédulas hipotecarias register the prospectus of the issuance with the CNMV (Spanish Securities and Exchange Commission) .

What are the securitisation bonds?

The securitisation bond is a financial instrument issued by a Securitisation Company and backed by the securities transferred to it by the credit institutions. The securitisation fund is set as a separate asset of the transferring entities, so that the securitised portfolio remains out of the reach of the creditors of said institutions .

Via securitisation, the various transferring institutions, including those that due to their reduced size would not have access to other sources of funding, share high quality assets to back the issuance of securitisation bonds and have access to funding in more favourable conditions than those they would obtain individually .

The CNMV (Spanish Securities and Exchange Commission) supervises the companies managing securitisation funds and, furthermore, the prospectuses of the securitisations are subject to registration in the CNMV.

What haircuts will the FAAF apply ?

A haircut, also called a coverage margin, is a deduction that is applied to the market value of the asset used as a loan guarantee in repurchase orders. Therefore, if the haircut rate is 10%, an asset valued at 100 shall only be able to guarantee a loan for a value of 90 .

The FAAF shall preferably apply the haircuts used by the European Central Bank for each type of asset .

Will the FAAF operate in the financial capital markets ?

The FAAF does not operate in the financial markets as its mission is to contribute to an increase in liquidity favouring institutions to fund their transactions in the capital markets and, above all, allow the institutions to continue funding non-financial companies and households.

What diversification criteria will the FAAF apply?

The diversification criteria of the FAAF investments aim to limit the risk exposure. To such end, the regulation in force establishes that the FAAF will have two portfolios, one of assets acquired in outright purchases and another of securities acquired in repurchase orders .

In addition, portfolio exposure limits are set to one issuer (10% on the portfolio of outright orders) and to one institution (10% of the repos portfolio).

In addition, in order to avoid cornering by any given entity, and to guarantee that there are no entry barriers for the smaller sized entities, limits are set as to the maximum amount that each entity can obtain in an auction, which shall be the lowest of the following amounts:

- . 10% of the maximum volume to be auctioned by the FAAF
- . 2.5 times the share of the institution in the item of "Credit. Other resident sectors" multiplied by the maximum volume to be auctioned.

Who controls the FAAF ?

Royal Decree-Law 6/2008 and Order EHA/3118/2008 contemplate a double control mechanism:

Public auditing by the Financial Controller Administration Office (IGAE).

Parliamentary control through a four-monthly report, with wide-ranging information on the transactions and status of FAAF, as well as FAAF's annual accounts, to be submitted by the Ministry of Economy and Finance to the Economy and Finance Committee of the Chamber of Deputies. In addition, the Secretary of State for the Economy, in his capacity as President of the Executive Committee, will appear to the mentioned Committee of the Chamber of Deputies every two months to report on the FAAF.



frequently-asked questions 



Contact 