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Report of the Advisory Division of the Council of State on the European Stability Mechanism

Summary and conclusion

The Dutch House of Representatives has requested the Advisory Division of the Council of State advise on the consequences of non-compliance with rules and agreements concerning the Economic and Monetary Union (EMU), and on the policy options in the event that multiple Member States and banking systems find themselves in difficulty. The request from the Dutch House of Representatives follows the earlier report 'The State of the Euro' of November 2017, on the possibilities for improving compliance with European rules and agreements, and on the different options for the future of the euro. The questions from the Dutch House of Representatives arise from current concerns regarding compliance and the enforceability of the rules and agreements agreed, and the robustness of the euro's institutional arrangements. In June 2019, the European Council will establish the strategic agenda for the new incoming Commission for the 2019-2024 period. It will include further deepening of the EMU. This report could help a position to be adopted, based on the Netherlands' policy preferences, in relation to instruments that reduce the risks in the eurozone.

This report follows the conclusions drawn in the earlier report with regard to Dutch interests in shaping the future of the EMU. These policy preferences included four elements: a stable and open trade system, macroeconomic policy discipline and supervision of compliance with rules, sufficient policy competition and functioning of the free market, and adjusting imbalances instead of funding them. Possible measures and instruments for reducing risks are assessed against the background of these preferences.

The EMU cannot be viewed separately from the overarching process of European integration, to which the introduction of the euro – twenty years ago – added an extra dimension. The Netherlands is experiencing a relatively prosperous economic period in the eurozone and derives greater than average benefits as a trading nation. Nevertheless, the financial crises during 2008 – 2013 demonstrated that the Netherlands, with a relatively strong economy and orderly state of public finances, is not impervious to external shocks. However, there are also countries in the eurozone that are structurally lagging behind and are causing problems that also affect other Member States in the eurozone. The self-evident irreversibility of the euro is in the Dutch interest and this applies to the same extent to further strengthening of the monetary union. The Advisory Division argues in this report that strengthening the institutional and governance framework of the eurozone and completion of the Banking Union and of the Capital Markets Union, go hand in hand with increasing trust in the monetary union.

Strengthening the EMU following the financial crisis, with the introduction of the Banking Union and a common stability mechanism (ESM) has restored a certain degree of calm to the eurozone. The monetary union is clearly in better shape than it was ten years ago. Risks have decreased across the board, although vulnerabilities persist. The question is whether the eurozone is adequately equipped for a subsequent crisis, which is not easy to predict. The underlying concern is whether the agreed governance and institutional rules and agreements are powerful enough. A new dimension in the questions put forward by the Dutch House of Representatives is the concern about banking systems that are still weak in a number of countries and continuing financial fragmentation in the eurozone.

Since the last report the eurozone's economy has displayed an upward trend. The euro countries are demonstrating positive growth figures, ESM programmes for problem countries are successful and the fiscal position has improved significantly, with an average government deficit of 0.5% GDP in the eurozone. Risks at banks have also fallen sharply as a result of strengthening the capital position and phasing out problem loans. At the same time, structural reforms are lagging behind in countries that were not forced to implement them by an ESM programme, including in the Netherlands. Consequently the eurozone is stuck on a potential growth path of 1¼%, which is too low. A number of countries display persistently high government debt and the Commission rejected a draft budget for the first time.

Therefore, risks still exist. From an *economic and budgetary perspective* because the efforts made by a number of countries regarding debt reduction and economic strengthening are insufficient. From a *financial and monetary perspective* due to the financial fragmentation and continued intertwinement of governments and banks, which also seriously impedes monetary policy. And from the *institutional and governance perspective* because compliance with and enforcement of the rules and agreements are inadequate due to political considerations.

The risks within the eurozone primarily involve the financial markets, banking sector and government channel. In normal circumstances shocks can be absorbed, but in a crisis these risks increase and spread. The impact of crises will remain limited, as efforts to prevent destabilising capital flows, financial fragmentation and contagion become more successful. This could be achieved *through public mechanisms* that use European public funds, such as during the crisis, but risk sharing could also be implemented more and to a greater degree *via the private sector.* The extent to which private risk sharing takes place is largely dependent on the structure of the financial system. Private risk sharing in other monetary areas, including in the United States, is much more extensive than in the eurozone. Within Europe the banking sector plays a far greater role in financing the business sector than elsewhere, and the differences in financial regulation within the eurozone impede an efficient European capital market, in which the private sector absorbs shocks.

Strengthening private risk sharing further reduces the chance that the Dutch government, and thus the Dutch taxpayer, will suffer adverse financial effects of crises that arise elsewhere. This also means that market discipline ex ante will encourage countries to stay on the right economic path, since market parties suffer the adverse effects of funding vulnerable governments and banks. Forms of public risk sharing will

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also remain necessary to prevent financial instability and contagion, but the risks will be more evenly shared than is currently the case.

In this report we present a *risk framework* in which we explain the instruments that exist to prevent the main risks, and where strengthening is needed to ensure the risks are manageable. This provides a specific starting point for exploring the questions from the Dutch House of Representatives in more detail.

The *first question* raised by the Dutch House of Representatives concerns the effects of structural non-compliance with the rules and agreements. Aspects that come to the forefront include the threshold value for government debt - 60% of GDP or if the debt decreases at a satisfactory pace - and the fact that a number of countries have not effectively complied with macroeconomic policy recommendations for a considerable period of time. These are not always adequately enforced by the Commission, the penalty instrument is hardly ever applied. First and foremost the consequences of non-compliance with the rules and agreements are negative for the actual countries involved. They are confronted with higher interest charges and there is no scope for a stimulating economic policy, which makes it difficult to 'grow out of debt'. However, other countries in the eurozone also suffer as a result, especially if financial fragmentation and contagion occur.

If financial problems do emerge because a country has not complied with the rules and agreements, other countries that guarantee aid operations funded by the ESM face major risks too and run an indirect risk from loans to these countries from the ECB. Structural non-compliance with rules and agreements could affect mutual trust between Member States. Moreover, crises could emerge that are independent from the rules and agreements made. The major differences in the debt positions of Member States participating in the eurozone – from 8% GDP in Estonia to 180% GDP in Greece – hinder the efficient operation of a European capital market. This largely concerns persistent legacy problems; after all, problematic government debt is mainly observed in countries that already had high levels of debt when they gained accession to the euro.

In response to the *second question* put forward by the Dutch House of Representatives regarding the policy options available for mitigating these risks, and if they do occur, to limit the negative consequences thereof as much as possible, the Advisory Division suggests a combination of preventive measures in the arrangements for public risk sharing and greater emphasis on strengthening private risk sharing.

The risks from a *budgetary and economic perspective* could be managed more effectively by improving compliance with and the enforcement of rules and agreements at the fiscal and macroeconomic level. It is in the Netherlands' interest for this to result in the eurozone countries and the EMU as a whole becoming more robust and more stable. The risks from an *institutional and governance perspective* could be managed more effectively by better defining the distinctive roles of the Commission and thus making decision-making more transparent. There are several options for improving enforcement of the rules and agreements made. To this end the Advisory Division makes the following *recommendations*:

i. Simplifying fiscal rules

The set of fiscal rules could be strengthened through simplification. The flexibility applied to the rules during recent years, at the request of Member States, has primarily resulted in complexity. This has also led to greater scope for discretionary assessment, which in practice has obstructed enforcement. The plea from, for example, the European Fiscal Board to focus more on the expenditure rule and government debt rather than on the structural balance, which depends on forecasts and is more difficult to interpret, would be a useful step. This would constitute a major point of attention when evaluating the performance of the SGP.

ii. Multi-year strategy aimed at debt reduction and structural reforms

The Advisory Division recommends focusing the fiscal rules and arrangements more on the multi-year budget, which implies that a time frame for debt reduction is imposed on countries with a structural excessively high debt position. Ideally, the multi-year strategy for debt reduction would be accompanied by structural reforms. This would also improve alignment with recommendations related to the procedure for macroeconomic imbalances (MIP) for structural reforms, which according to their nature often have a medium-term objective. Positive incentives could be offered by using European funds for structural reforms. The route to an ESM preventive credit line could be made more attractive. The Advisory Division recommends retaining a role for the International Monetary Fund (IMF) in this regard due to its independent external position.

iii. Unbundling Commission tasks promotes transparent decision-making

Intertwining the different roles in the Commission reduces transparency of decision-making and could result in non-transparent political considerations when assessing compliance with the rules and agreements. The Advisory Division recommends the forecasts of macroeconomic and fiscal data be assigned to an independent body that operates separately from the Commission’s policy departments. Furthermore, the Advisory Division recommends strengthening the position of the European Fiscal Board (EFB) in the general sense, providing it with adequate support, and issuing it with a special mandate to formulate independent judgements and recommendations related to compliance with the rules and agreements. One could also consider extending the powers of the European Commissioner responsible for fiscal matters.

iv. Greater market discipline

Sustainable public finances would benefit from greater market discipline by adhering more to the no-bail-out principle, in which there is a better balance between private and public risk sharing. A debt restructuring mechanism should be established to prevent financial markets from continuing to speculate on financial aid. Consequently, as a last resort unsustainable debts should be settled in an orderly manner and losses borne by private market parties. The knowledge that debt restructuring is part of the set of instruments will encourage more adequate pricing of risks. Possible restructuring will always have to go hand in hand with the use of existing safety nets of the ESM.

The risks from the *financial and monetary perspective* could be managed more effectively by completing the Banking Union and Capital Markets Union, which would result in a far greater degree of private risk sharing and the intertwinement of banks

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and governments would be reduced. To this end the Advisory Division makes the following *recommendations*:

v. Limit sovereign exposures on bank balances

To apply market discipline in a credible manner there must be no doubt that enforcing the no-bail-out clause will not directly lead to large-scale problems in the banking sector. Therefore, it is essential that the intertwinement of government debt and bank balances is reduced by limiting the amount of government bonds banks may have on their balance. The Advisory Division proposes limiting government debt on bank balances (sovereign exposure) and further decreasing it over time. This should eradicate the negative intertwinement of banks and governments, and prevent governments and banking systems encountering problems at the same time, which is a concern of the Dutch House of Representatives.

vi. Complete the Banking Union

Greater private risk sharing could be achieved by completing the Banking Union. Completion of the European deposit insurance scheme as the last step of the Banking Union is urgently needed. A satisfactory solution to sovereign exposure on bank balances (see advice above) would be helpful. The Single Resolution Mechanism (SRM) is also still awaiting completion with the integration of a common backstop to the ESM. If deposits benefited from the same protection in all eurozone countries this would reduce financial fragmentation and the formation of European banks would be easier. Greater cross-border integration could promote stability in the EMU, provided it is balanced and takes place under the right conditions.

vii. A specific action programme aimed at a single European capital market

The Advisory Division recommends taking small steps over the next few years to shape the Capital Markets Union as part of the internal market programme. The emergence of a single European capital market is currently impeded because Member States continue to adhere to national customs and regulations, some of which favour national market parties. Desirable improvements include strengthening the European capital market regulator (ESMA), which would increase harmonisation of national regulations. In addition, one could consider steps aimed at improving the pace at which procedures are implemented in the event of bankruptcy, and eliminating obstacles in the field of cross-border share ownership, such as double taxation. In this light a single legal framework for transactions is also important, particularly now that after brexit, the custom to use UK law can no longer be continued. An efficient internal capital market reduces the dependence of bank lending in Europe and provides greater stability. It also increases access to financing for SMEs, a focal point for the Netherlands. Moreover, private risk sharing is increased, whereby it is not the public sector, but market parties that have financed governments with an excessive government debt or weak banks, that take the risks.

Lastly, this brings us to *the third question* posed by the Dutch House of Representatives, concerning how to act in a very serious crisis situation in which several countries and banking systems find themselves in trouble at the same time. The consequences would be serious in all circumstances and all efforts must also focus on preventing such a situation. To this end, different courses of action are provided in this report for intervening sooner – in a preventive manner – and ex ante boosting market discipline. This does not detract from the fact that in a collective context of otherwise sovereign states such situations still arise in which there are limits to what can be achieved through persuasion and strict enforcement. Past experience has also taught us that crisis situations may arise anyway, even if countries comply with the rules and agreements, if only because the eurozone is part of the set of global economic, financial and monetary ups and downs. A far greater degree of private risk sharing could be achieved in these types of situations if there is an efficient operational European capital market, which enables the risks to be spread more effectively, reducing the need to resort to public funds.

The Advisory Division is of the opinion that after being strengthened along the lines indicated above, the existing set of instruments is sufficient for dealing with problems in foreseeable circumstances and steering them in the right direction. The instruments that should be further developed include a pre-established restructuring mechanism, in which in an extremely serious crisis with unsustainable debt positions, the losses are incurred by private parties that have invested in these countries and banks. This reinforces market discipline because it affords the no-bail-out principle greater credibility. However, depending on where the losses are incurred, it will result in major shock effects elsewhere. Also in the Netherlands, which has invested its pension assets abroad, while the business sector is highly focused internationally and has major interests abroad.

If a significant crisis situation were to occur, involving several (large) countries, the instruments still available are the ECB's OMT programme (*Outright Monetary Transactions*), unused to date, and deployment of the IMF. Within the OMT programme, introduced in 2012, the ECB acts as the lender of last resort in the eurozone. The effectiveness of the latter, which involves unlimited bonds of Member States being bought up by the ECB, is highly consistent with the conditions the programme imposes on governments, especially the requirement that an adjustment programme must be agreed with the ESM. The IMF acts as a lender of last resort in the international financial system and has experience with extremely serious crisis situations. In both cases there is far-reaching conditionality aimed at restoring debt sustainability through intensive policy adjustments, so that the countries involved obtain access once more to financial markets.

Nevertheless, in these circumstances the risk of the cohesion of the euro system coming under pressure is by no means inconceivable. The Netherlands, with its open economy, and serving as a main port for the European hinterland, would be extremely vulnerable if, as a result of withdrawal or collapse of the eurozone, unimpeded access to the markets at fixed exchange rates in surrounding countries was jeopardised. Therefore, the Netherlands should strengthen its economic structure by investing more in innovation, making it less dependent on its trade and distribution role, which is vulnerable in a worst-case scenario. The Advisory Division deems it important for the government of the Netherlands to include a periodic risk analysis in the Budget Memorandum (Miljoenennota), in which the risks of a crisis situation in the eurozone are calculated, and that indicates how these risks are mitigated. In addition, it could specify possibilities for strengthening the EMU's operations.

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The Advisory Division concludes that, all things considered, a proactive approach by the Netherlands in a European context, based on the three perspectives addressed, is by far the most effective for retaining and strengthening the benefits the euro offers the Netherlands and surrounding countries. This requires a three-step approach, in which in mutual consultation, enforcement of the rules and agreements is improved, the Banking Union is completed and a Capital Markets Union is established. The measures proposed by the Advisory Division are summarised in Box 1.

Box 1 Proposed measures

Greater compliance with and enforcement of rules and agreements

i *Simplification of fiscal rules*
- Reduced complexity

ii. *Focus on a multi-year budget: debt reduction and structural reforms*
- Alignment with country-specific MIP recommendations

iii. *Unbundling Commission tasks*
- Planning bureau organises forecasts
- Greater role for the European Fiscal Board in formulating judgements

A shift from public to private risk sharing

iv. *Greater market discipline*
- Stricter application of no-bail-out
- Development of the restructuring mechanism

v. *Restriction of sovereign exposure on bank balances*
- Concentration limit with a transition period

More robust financial integration on the banking and capitals market

vi. *Completion of the Banking Union*
- Completion of the European Deposit Insurance Scheme
- Common backstop for the European Single Resolution Fund

vii. *Specific action programme aimed at a single European capital market*
- Greater powers for the European regulator ESMA
- Harmonisation of regulation

Conclusion: the Dutch House of Representatives' request

First question

The first question put forward by the Dutch House of Representatives concerns the effects of European Union Member States' structural non-compliance with the rules and agreements related to, for example, deficit and debt criteria.

During the twenty years in which the euro has existed, experience concerning compliance with the various agreements has been mixed. Compliance with the deficit criterion stipulated in the Treaty is, with a few exceptions, generally effective and currently no Member State structurally exceeds the 3% threshold. However, several Member States structurally exceed the 60% threshold. Government debt in a number of countries has exceeded 100% of GDP for a considerable period of time. Compliance with the requirement that this debt be reduced at a satisfactory pace has been inadequate and has been insufficiently enforced.

Failure to comply with agreements in full does not necessarily result in problems in all cases, but long-term excessive levels ultimately affect fiscal, macroeconomic and banking risks in the monetary union. Although these risks have clearly decreased in recent years, major risks still exist in Southern Europe as well as Northern Europe. The consequences of exceeding fiscal rules for long periods – especially those related to government debt – take several forms. Due to the intensification of financial integration in recent decades, financial channels, such as fragmentation and contagion, have increased in importance.

The costs of structural non-compliance with the rules and agreements firstly impact the countries concerned. Countries with excessive government debt are confronted with higher interest charges. This is not only a direct consequence of higher debt, but is also due to the higher risk premium that countries with high debt must pay. Non-compliance with the rules means there is less scope for stimulating policy, as a result of which these countries are also confronted with relatively low economic growth and high unemployment.

In addition to the impact on the countries concerned, other eurozone Member States also suffer the effects. There are the indirect costs borne by other countries related to lower economic growth in countries with excessive government debt. The Netherlands is no exception: when things are not going well in the affected countries the Netherlands misses out on economic opportunities – Italy is our fifth export market. Furthermore, negative spillover effects may occur in the monetary union via financial channels resulting from careless fiscal policy in individual countries. The underlying objective of the fiscal rules is to prevent this from happening.

These spillover effects could occur if financial markets demand a higher risk premium for all EMU countries. However, there is no evidence of this at the moment. The interest rate level in the eurozone is historically low, partly as a reflection of common European fiscal policies which, on average are prudent. Investors are also opting for safe countries – safe havens – which means the interest rate is lower in strong eurozone countries. As a result, the Netherlands is confronted with a lower interest rate than the eurozone average. Nevertheless, the euro crisis has demonstrated that when problems arise in individual Member States, serious financial fragmentation and contagion can occur, which also affect other countries. Governments and banking sectors in diverse countries were confronted with losses, higher risk premiums and financing problems.

Therefore, it is in the interest of the rest of the EMU to prevent a crisis in one of the Member States being accompanied by financial markets shattered by pessimism with excessive spillovers. This is why diverse public mechanisms now exist to absorb financing problems experienced by banks and governments. Although this does involve direct costs and risks for other Member States, it enables (depending on the circumstances) greater costs resulting from far-reaching escalation to be avoided. This also applies to the international-oriented Dutch economy, which is one of the largest direct foreign investors, with a structural surplus on the balance of payments, and a funded pension scheme.

Second question

The second question raised by the Dutch House of Representatives concerns the policy options that exist and the precautionary measures the Netherlands could implement if one or more countries in the eurozone structurally failed to meet their obligations.

It is clear that it would be a positive thing for the Netherlands if the risks were managed more effectively and could be absorbed at a lower cost. The Netherlands has a relatively small economy with a limited home market. With this in mind, the Netherlands could consider three courses of action.

With regard to the first, stricter and more credible enforcement is essential. The set of fiscal rules could be strengthened through simplification. The flexibility applied to the rules during recent years, at the request of Member States, has primarily resulted in complexity. This has also led to greater scope for discretionary assessment, which in practice has obstructed enforcement. The plea from, for example, the European Fiscal Board to focus more on the expenditure rule and government debt rather than on the structural balance, which depends on forecasts and is more difficult to interpret, would be a useful step. This could constitute a major point of concern when evaluating (the performance of) the SGP.

Stricter enforcement must be accompanied by improving market discipline and increasing private risk sharing. Market discipline combined with the Commission's role in signalling issues, can be highly effective at forcing through policy changes. This applies all the more because within the current structure of EMU, with limited transfer of sovereignty, the political capacity for compliance and capacity to enforce rules, there are certainly limits. Even after improving compliance and enforcement there will still be a risk that in certain circumstances it will prove politically too challenging, and that the rules will still not be respected. Effective market discipline, which in certain circumstances would lead to higher interest rates for the government and the business sector, could create a climate for changing policy.

A second course of action available to the Netherlands is to focus more on private instead of public mechanisms when developing financial support mechanisms. One important aspect concerns the fact that recourse to financial support mechanisms cannot be avoided at all times. It would not be possible to achieve full compliance and moreover, crisis situations can also arise if countries do comply with the rules and agreements. This was previously the case in Ireland and Spain, which still had to recourse to financial support from the ESM because their banking systems were in trouble, despite their relatively low deficit and debt position. A subsequent crisis could be the result of completely different causes than those currently anticipated.

The risk of recourse to public support mechanisms could be reduced by focusing more on private risk sharing. As far as banks are concerned, this has already been set in motion with the European resolution framework and the application of bail-in. The most important thing now is for this framework to be strengthened and, as in the US, applied with vigour and in line with the spirit of the legislation.

A third course of action the Netherlands could take is to promote more robust financial integration in the Banking Union and Capital Markets Union. This will also stimulate private risk sharing. The risk of problems occurring in the banking sector has already been largely mitigated with the establishment of the Banking Union and the significant strengthening of the capital position of banks. However, the Banking Union will not be completed until the common deposit insurance scheme (EDIS) is in operation. Therefore, the Netherlands' efforts must focus on the completion of the Banking Union.

Political support for completion of the Banking Union has so far been delayed since banks in a number of countries continue to have substantial non-performing loans on their books and hold major positions in national government bonds. Good progress has since been made in reducing problem loans, particularly at the larger banks. Stricter regulation of portfolios of government bonds on bank balances (sovereign exposure) remains essential for preventing problems in the future.

The crisis resilience of the EMU would steadily improve by completing the Capital Markets Union. The characteristic of an efficient internal European Capital Market is that risks are largely borne by the private sector, which means the chance of public risk sharing is reduced. Important elements of the Capital Markets Union involve strengthening the position of European regulators, especially the European Securities and Markets Authority (ESMA). This could make a greater contribution to convergence of the policy practice of national regulators on the capitals markets, and to harmonising national regulation. Steps could also be taken in other areas to promote the capitals market.

Third question

Regarding the question of how to act in a crisis situation in which several countries and banking systems are in trouble, there should be no expectations that blueprints, if any exist, could be shared. By their very nature, the measures anticipated will be confidential. In order to avoid moral hazard, several options will be kept open for financial market parties in crisis situations – also referred to as constructive ambiguity.

Nevertheless, it is evident that many measures have been implemented since the financial crisis to cope with such a situation. The Netherlands and the EMU are undoubtedly better prepared than they were at the time. In addition to measures to prevent crises, diverse mechanisms now exist to absorb financing problems experienced by banks and governments. For governments there is the ESM and the possibility of asset purchases by the ECB under the OMT programme. For banks there is the possibility of liquidity support via the ECB and the option of bank resolution with the application of bail-in. In an extremely serious crisis situation the various instruments must be applied with vigour, in which bank resolution and government debt restructuring will be required. This underlines the fact that the capacity to absorb such a crisis is not only a technical issue, but also a political one. Effective cooperation and mutual trust within the monetary union will continue to be of great importance during these difficult circumstances.

The Dutch House of Representatives also requested information about the Netherlands' vulnerabilities in the event of a crisis in the eurozone. With its open economy, the Netherlands has close ties with other countries, financially as well as in terms of trade, and serves as an important main port for the European hinterland. The Netherlands has a relatively small economy with a limited home market and the business sector is also dependent on unimpeded access to markets in its surrounding countries. The Netherlands could improve the structural resilience of its economy. This would make it easier to absorb and recover from any effects of crises elsewhere in the euro area. The Advisory Division addresses this topic in its annual reports on the Budget Memorandum (Miljoenennota), and in its half-yearly reports in the context of independent budgetary monitoring.

Lastly, the government of the Netherlands should consider including a periodic risk analysis in the Budget Memorandum (Miljoenennota), in which the risks of a crisis situation in the eurozone are calculated, and policy options to avoid the risks as much as possible and mitigate their effects are explained. In addition, it could indicate the possibilities foreseen for strengthening the EMU's operations.

The self-evident irreversibility of the euro is in the Dutch interest and this applies to the same extent to further strengthening of the monetary union. Further steps require greater mutual trust, and this has to come from both sides. The Advisory Division argues in this report that strengthening the institutional and governance framework of the eurozone, and completion of the Banking Union and of the Capital Markets Union go hand in hand in increasing mutual trust. All things considered, based on the three perspectives addressed: (i) improving institutional-governance enforcement, (ii) completion of the Banking Union and (iii) establishment of the Capital Markets Union, a proactive approach by the Netherlands in a European context is by far the most effective for retaining and boosting the benefits the euro offers the Netherlands. In its response to the three questions to be elaborated, the Advisory Division of the Council of State has presented specific, new proposals in this three-step approach, in line with and partly building on 'The State of the Euro', the report from November 2017. These are summarised in Box 1 on page 7.