CEPS POLICY BRIEF

WHY A REVENUE-BASED SPECIAL PURPOSE VEHICLE (SPV) IS THE BEST WAY TO MOBILISE FROZEN RUSSIAN ASSETS WITHOUT DESTABILISING BELGIUM

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December 2025-08

SUMMARY

One of the major policy dilemmas of the past few weeks has been how the EU can continue to fund Ukraine's war effort and reconstruction. Many have been arguing that the considerable amount of Russian assets held by Euroclear (based in Belgium) should be seized and given to Ukraine. However, such a solution comes with considerable legal and geopolitical risks – especially for Belgium, which has caused Belgian Prime Minister Bart De Wever to consistently oppose any disbursement of the assets that could lead to either Russia retaliating against Belgium or leaving the country open to legal challenges under international law.

To square this circle, the Commission has proposed a legally careful but financially unconventional architecture in the form of a 'Reparations Loan'. This short CEPS Policy Brief instead argues that there's another, cleaner, less complex solution in the form of a revenue-based special purpose vehicle (SPV) which would only mobilise the net extraordinary revenues generated by the immobilised Russian assets.

Such a solution would deliver substantial upfront funding to Ukraine while avoiding the systemic and geopolitical challenges of the proposed Reparation Loan – and, crucially, would go a long way towards allaying Belgium's concerns and ensuring that the stability of the wider global financial system isn't compromised.

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Introduction

Since the outbreak of war in Ukraine, the EU has frozen some EUR 200 billion of sovereign Russian assets held on its territory, with the overwhelming majority – around EUR 185 billion – sitting in Euroclear, the Belgium-based securities depository. These assets have been immobilised through successive rounds of EU sanctions adopted since March 2022, which prohibit transactions related to the Central Bank of Russia's reserves and assets. These measures are periodically renewed by the Council and, politically, are expected to remain in place until Russia ends its invasion and agrees to pay reparations to Ukraine.

At a time when many are arguing that 'those who wage war should pay for reconstruction', directly confiscating such sovereign assets may appear politically attractive. Yet this path remains fraught from the standpoint of public international law and risks severe financial-stability consequences, especially if large holdings denominated in euros are forcibly reallocated, potentially undermining confidence in the euro as a reserve and transaction currency.

Since mid-2024, the EU has already begun to channel the 'net extraordinary revenues' generated by Russia's immobilised reserves to support Ukraine's budget and defence. At current short-term interest rates, a EUR 200 billion portfolio of frozen Russian sovereign assets yields around EUR 4 billion per year.

On 3 December 2025, the European Commission put forward two possible solutions: (1) EU borrowing, relying on additional 'headroom' in the EU budget; and (2) a Reparations Loan, which would allow the Commission to borrow cash balances from EU financial institutions but mainly Euroclear.

In terms of simplicity and cost, a straightforward increase in EU-level borrowing backed by the common budget would be the first-best solution as a joint EU bond avoids the legal fragilities of pledging immobilised Russian assets, dispenses with complex financial engineering and delivers funding at scale based on familiar instruments.

Yet the practical scope for relying on remaining budgetary headroom is increasingly constrained. As the EU budget begins to absorb rising interest payments on NextGenerationEU debt and with negotiations for the next Multiannual Financial Framework already characterised by an intense debate over possibly reallocating funds away from cohesion and agricultural policies, the political and fiscal space to mobilise headroom for Ukraine is narrowing.

THE REPARATIONS LOAN – A RISK FOR BELGIUM AND ITS MARKET INFRASTRUCTURE

The Commission's proposed Reparations Loan rests on a legally careful but financially unconventional architecture. The EU would borrow the cash balances accumulated within financial institutions, such as Euroclear, based on immobilisation, while affirming that the underlying sovereign assets remain untouched and legally owned by Russia. These cash balances don't constitute sovereign property and can thus – in principle – be lent by the custodians to the EU, which would then receive the cash, with the custodians receiving an EU liability in exchange.

This design has **two distinct risk channels**.

First, it creates a sizeable liquidity and refinancing risk for the custodians. If sanctions are lifted before Russia pays reparations, institutions such as Euroclear would have to honour a claim of roughly EUR 200 billion from the Russian authorities, even though the original cash balances would have been transformed into a loan to the EU and disbursed to Ukraine.

Second, it causes Belgium to become legally and geopolitically exposed because custodians retain full liability towards the Russian Central Bank, and Belgium becomes the primary jurisdiction vulnerable to legal claims, operational disruption or retaliatory measures, given Euroclear's central role in the global financial architecture.

It's precisely this risky exposure that has caused such a strong reaction from the Belgian government. Prime Minister Bart De Wever has argued that Belgium cannot, in practice, become the 'first-loss' jurisdiction for a mechanism indirectly backed by nearly EUR 185 billion in assets held at Euroclear. In response, the Commission has designed an elaborate system of guarantees, including an initial EUR 105 billion envelope, with a potential second envelope of the same size, to shield Euroclear and Belgium from the risks created if the EU borrows the immobilised cash. These guarantees would be mutualised according to Member States' economic weight and supplemented by a liquidity mechanism, enabling the EU to swiftly reimburse Euroclear should the sanctions regime unexpectedly end.

This emerging 'three-layer' protection system illustrates the core structural problem – **the instrument requires immense political and fiscal guarantees because it relies on borrowing the entire stock of immobilised cash while providing no corresponding asset-based security**.

In substance, the Reparations Loan is not a financing mechanism built on the revenues generated by the immobilised Russian assets but rather a refinancing mechanism built on the temporary use of their full principal. This design solves the EU's liquidity problem but creates a refinancing problem for the custodian jurisdiction – in short, Belgium becomes, by default, the locus where a EUR 200 billion repayment obligation would crystallise if sanctions were lifted before Russia pays reparations to Ukraine. The elaborate guarantee structure that the Commission is now crafting is therefore not a feature of the scheme – but a symptom of its core imbalance.

If, instead, the EU employed standard, market-tested financial tools, based on the revenue flows rather than the principal, the need for bespoke political shields would considerably diminish and the burden on Belgium would be structurally reduced.

This mismatch between the Reparations Loan's legal intentions and its financial mechanics is why the alternative architecture set out in this Policy Brief would be a much better alternative.

A viable policy alternative – an EU-level SPV based on revenue flows (not principal)

A more balanced and financially orthodox alternative to the Commission's Reparations Loan is the establishment of an EU-level special purpose vehicle (SPV) mandated to mobilise *only* the net extraordinary revenues generated by the immobilised Russian sovereign assets, while leaving the entire EUR 200 billion principal untouched and in Euroclear's custody. The SPV would be created under EU legislation and domiciled in a jurisdiction with a predictable and stable legal environment and has experience in hosting public-sector vehicles – but outside Belgium to avoid concentrating systemic exposure in the custodian jurisdiction.

At current interest rates, the immobilised portfolio yields approximately EUR 4 billion per year. Under the SPV architecture, these revenues would be assigned on a standing basis to the vehicle and placed in ring-fenced accounts. The SPV would then issue bonds backed by this predictable income stream, thus transforming a modest annual flow into sizeable upfront transfers to Ukraine through a standard front-loading approach widely used in sovereign and infrastructure finance.

Crucially, the Russian sovereign assets themselves are never touched, encumbered or pledged. They remain locked away with Euroclear. This structure offers several advantages over the Commission's Reparations Loan proposal.

First, it eliminates the need to borrow the full stock of immobilised cash balances from Euroclear or other custodians. Because the principal of the Russian assets remains untouched, the SPV avoids the liquidity and refinancing risks that would otherwise crystallise in Belgium if sanctions are lifted. This substantially reduces Belgium's legal and geopolitical exposure, which lies at the heart of Belgium's concerns regarding the Reparations Loan.

Second, the SPV dispenses with the complex three-layer guarantee system currently being constructed to shield Euroclear and Belgian authorities from the risks created by the EU borrowing the immobilised cash. Instead of relying on bespoke and politically fragile safeguards, the SPV is built on a conventional financial technique, securitising a dedicated revenue stream, whose mechanics are well understood by markets and by public finance institutions.

Third, because the principal of the immobilised Russian reserves remains in place and legally untouched, the SPV reduces the risk of Russia unleashing destabilising retaliatory measures or legal challenges under international law. It also preserves the integrity of the EU sanctions regime as the SPV only uses the extraordinary revenues that aren't considered sovereign property.

THE NEED FOR GUARANTEES

Although the SPV is designed to operate as a largely self-financing structure, backed by a dedicated and predictable revenue stream, a robust guarantee framework remains indispensable. Sovereign guarantees ae needed not only because of the possibility that sanctions could be lifted prematurely, which would end the revenue flow following a peace agreement, but also from what the capital markets would require. To secure a strong credit rating and minimise funding costs, the bonds issued by the SPV would require additional credit enhancement beyond the securitised revenue stream.

For this reason, **the SPV's liabilities would need to be guaranteed collectively by all EU Member States**, with exposures either allocated proportionally by GDP or by a composite metric such as GDP and population, rather than being concentrated on Belgium as the custodian jurisdiction. With such a structure, the SPV's bonds could obtain an investment-grade profile consistent with AA-level ratings, reflecting the strength of the underlying guarantees and the stability of the assigned extraordinary revenues.

For euro area Member States, **these guarantees could be delivered through a dedicated European Stability Mechanism (ESM) instrument created under Article 19 of the** ESM Treaty. Article 19 empowers the ESM Board of Governors to review and expand the list of financial assistance instruments beyond those explicitly enumerated in Articles 14 to

18. What this does is **provide a clear legal basis for a tailored guarantee facility to support the SPV**.

There's also a well-established institutional precedent for such a differentiated setup. Under the common backstop to the Single Resolution Fund, the ESM provides a revolving credit line 'on behalf of the euro area', while non-euro participating Member States offer parallel national credit lines under aligned terms. A similar architecture could be replicated for the SPV – euro area guarantees would be channelled through an ESM-based instrument, complemented by nationally provided guarantees from non-euro Member States.

Should using the ESM prove politically complex for some Member States, the guarantee framework could nevertheless be implemented through more conventional arrangements. These could include a standardised system of proportional national guarantees or even an adapted version of the guarantee structure that the Commission has already envisaged for the Reparations Loan.

In either case, the essential financial logic remains intact – the SPV would rely on Member State backing as a contingent support mechanism, while remaining primarily serviced by the extraordinary revenues generated by the immobilised Russian assets.

OPTIONAL REVENUE ENHANCEMENT THROUGH INTEREST RATE SWAPS

Although the SPV could operate effectively without financial engineering beyond assigning extraordinary revenues, **an additional – and entirely optional – enhancement would be entering into interest rate swaps (IRS) with highly rated international banks**. This mechanism wouldn't alter the legal treatment of the immobilised Russian assets, nor would it impact the principal revenues earmarked for Ukraine. Instead, **it would allow the SPV to convert part of the floating-rate return generated by the underlying assets into a more stable long-term fixed-rate income stream**, modestly increasing the overall revenues available for bond servicing.

As an increasing share of the immobilised portfolio now consists of short-term cash deposits across multiple banks and currencies, the SPV would naturally receive floating-rate returns linked to benchmarks such as three-month Euribor, currently around 2.04 %. Under an IRS, the SPV would pay this floating rate and receive a corresponding long-term fixed rate, e.g. the five-year euro swap rate, which is right now approximately 2.45 %. The resulting differential of roughly 40 basis points would yield an additional EUR 800 million per year on a notional amount of EUR 200 billion, raising the combined annual revenue stream from around EUR 4 billion to approximately EUR 4.8 billion.

This enhanced income could support a slightly larger bond programme or provide additional financial resilience without having to modify the SPV's core structure or the legal status of the underlying Russian assets.

Of course, using IRS introduces certain market risks. A decline in long-term interest rates could narrow or eliminate the swap differential, while a fall in short-term rates would increase it. To manage this, the SPV could simply employ caps and floors to stabilise the net flow within a predefined corridor. These instruments would limit exposure to adverse rate movements while allowing the SPV to benefit from favourable shifts in the interest rate environment.

Crucially, the IRS component should be understood as supplementary rather than foundational. The SPV's financial viability doesn't depend on swap enhancement – it's an optional mechanism that can modestly increase expected revenues while being fully removable if political, legal or market conditions make it undesirable.

SCALE AND FINANCING CAPACITY

The SPV's financing capacity ultimately depends on several parameters that would be determined during the structuring process, including the target credit rating, the maturity profile of the bonds, the debt-service coverage ratio applied by credit rating agencies, the stability of the revenue stream, and the precise design of the sovereign guarantee framework. Under standard assumptions seen in comparable public sector securitisations, **a dedicated annual revenue flow of several billion euros could support a substantial bond programme**, potentially delivering significant upfront resources for Ukraine.

Introducing optional IRS could modestly increase expected revenues, although rating agencies would apply conservative haircuts to the swap component and may require additional coverage ratios to reflect market and counterparty risks.

Given these uncertainties, it's neither necessary nor analytically sound to specify a precise issuance capacity at this stage. What matters in terms of policymaking is that the securitisation of extraordinary revenues, supplemented by an appropriate guarantee structure, can generate meaningful upfront financing while avoiding the legal, financial-stability and geopolitical risks inherent in borrowing against the immobilised Russian assets' full principal.

CONCLUSIONS

The EU must mobilise resources for Ukraine on a scale equal with the destruction inflicted by Russia, while avoiding legal overreach, geopolitical escalation or unintended financial-stability consequences. The Commission's Reparations Loan proposal, by relying on the temporary use of the full stock of immobilised Russian assets, inadvertently concentrates refinancing and geopolitical risk entirely onto Belgium, which then requires a complex system of guarantees that reflects the fragility of the proposal's underlying design.

A revenue-based SPV offers a more coherent and financially orthodox alternative. By only securitising the extraordinary revenues generated by the frozen assets – rather than borrowing against their principal – the EU can mobilise meaningful upfront financing while reducing Belgium's exposure and avoiding legal challenges associated with the direct use of sovereign property. Crucially, this approach aligns with widely used public-sector financing techniques, preserves the integrity of the sanctions regime and minimises Russia's incentives for retaliation.

The SPV would require a sovereign guarantee framework, both to secure an investment-grade rating and to provide continuity if sanctions are lifted following a peace agreement. An ESM-based instrument for euro area Member States, complemented by national guarantees for non-euro participants, provides a ready institutional foundation. Interest rate swaps could modestly enhance revenues, though they should remain a secondary option to the core structure.

Overall, a revenue-based SPV with appropriately designed guarantees represents a safer, more transparent and more market-compatible architecture for mobilising frozen Russian assets. It delivers upfront funding at scale while avoiding the systemic and geopolitical asymmetries embedded in the Reparations Loan, offering the EU both a viable path to finance Ukraine without destabilising Belgium or disrupting the global financial system.

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