

Windfall Optimisation Loan Framework

The CDFS Short Read – April 2026

Defrosting Russia's billions for Ukraine



This CDFS Short Read in Brief

Having failed to reach consensus on its proposed use of Russia's immobilised assets to back a Reparation Loan for Ukraine, the European Union on 18 December 2025 instead committed €90 billion to Ukraine through borrowing on the capital markets backed by the EU budget. This decision, whilst welcome, highlighted both the political obstacles to using Russian assets directly and the continued inadequacy of existing windfall mechanisms. As Hungary again chose to veto this solution, Kaja Kallas, the EU's High Representative for Foreign Affairs and Security Policy, stated on 31 March 2026 that 'if plan B does not work' the EU should 'go back to plan A'. As Ukraine's financing needs grow ever more urgent, the EU still stands one small legal step away from a realistic solution capable of unlocking tens of billions in additional immediate financing for Ukraine's defence and reconstruction from Russian assets themselves. That step is converting the current indefinite freeze of Russian Central Bank assets at Euroclear into a fixed-term commitment.

The Windfall Optimisation Loan Framework (WOLF) described in this Short Read is an alternative path to the rejected proposal for a Ukraine Reparation Loan funded by Russia's immobilised assets. Whilst the EU's €90 billion commitment through its own balance sheet demonstrates resolve, the magnitude of Ukraine's needs requires a more permanent solution to be found.

The failure of the Reparation Loan proposal makes the case for WOLF more urgent. It achieves comparable financing outcomes whilst avoiding the legal and institutional obstacles that derailed the Commission's approach. It is possible for member states to build on the existing windfall framework by delivering one incremental change.

The EU has already made the hard political decisions. It moved from rolling six-month sanction renewals to an indefinite freeze. It established the windfall contribution mechanism directing profits from these immobilised assets to the European Fund for Ukraine.

The G7 demonstrated through the ERA loans that using windfall cash flows as collateral is both legally and operationally feasible, even before the sanctions graduated from 6-month windows to indefinite.

But indefinite means uncertain duration. And uncertainty constrains borrowing. Lenders cannot advance significant sums against an income stream that could disappear at any moment if political circumstances change and sanctions are lifted. The temporal ambiguity of an indefinite freeze makes the windfall income stream suboptimally pledgeable as collateral, leaving Ukraine dependent on periodic direct contributions rather than immediate large-scale financing.

The solution is elegantly simple. The European Council should adopt a regulation establishing that Russian immobilised assets held at Euroclear will remain frozen until a specified date or for a specified term (subject to the already existing safeguard that the measure will be reversible provided Russia

ceases its war of aggression and pays for damage caused to Ukraine). This fixed-term commitment does not necessarily make the freeze longer or harsher than the current indefinite approach. It merely provides temporal certainty. Assets immobilised until, say, 2040 may well be immobilised for less time than assets immobilised indefinitely. But the fixed date transforms the legal and financial character of the windfall income stream.

With a credible fixed-term commitment, the windfall income becomes predictable collateral. The European Commission or another designated entity can pledge this income stream to lenders, who can calculate with a higher level of confidence the cash flows available to service debt. The amount available for immediate borrowing then is a function of two variables: the length of the fixed-term commitment and the annual windfall income generated.

Moreover, once the fixed-term commitment is in place, a further enhancement becomes possible. Looking forward to normalised interest rates conditions and using conservative assumptions about portfolio composition, higher returns are readily achievable through professional investment in low-risk investment-grade securities.

This could significantly raise annual windfall income, thus supporting borrowing capacity over the same commitment period. The simplest of calculations suggests that €90 billion could thus be raised assuming full optimisation. This optimisation requires parallel advancement with the fixed-term commitment, because only then can the enhanced income stream be efficiently pledged as collateral.

This Short Read first explains why the fixed-term commitment is the critical innovation that unlocks borrowing capacity. It then addresses the legal and political pathway for the EU to adopt such a commitment. It finally demonstrates how return optimisation through normal investment practices can further enhance available financing, particularly once the fixed-term commitment is in place.

1. The Case for an Alternative Approach

Rejection of the Reparation Loan Proposal

The European Commission had until the 18th of December 2025 been advocating for a "reparation loan" of approximately €140 billion, where Euroclear would lend its cash balances to the EU, which would then lend to Ukraine. This approach encountered substantial political resistance and faced several structural challenges. In the end it was rejected.

The fragility of the alternative arrangement that replaced it has since become apparent. Hungary vetoed disbursement of the €90 billion loan in February 2026 over an unrelated dispute concerning the Druzhba oil pipeline. Kaja Kallas responded on 31 March 2026 by signalling publicly that the EU should revert to Plan A, the use of frozen Russian assets, if Plan B continues to stall. The case for an alternative approach rooted in Russian assets is therefore more urgent than when the Reparation Loan was first rejected.

Risk Concentration in Euroclear:

Under the rejected proposal, Euroclear, a Belgian institution operating critical European financial infrastructure, objectively would have borne significant credit and legal risk.

In December 2024, Euroclear CEO Valérie Urbain wrote to EU authorities warning that the proposal could "destabilise European bond markets" and require "bulletproof guarantees" from all member states. This level of opposition from the key institution makes implementation extremely difficult.

Belgium blocked this approach, with Prime Minister De Wever stating he could not support a plan where such enormous risk concentrates in a single Belgian entity.

Lack of Fixed-Term Certainty:

The Commission's proposal too relied on the indefinite freeze continuing. Without temporal certainty about sanctions duration, the proposal would still have faced valuation and risk assessment challenges that would have complicated structuring and pricing.

A Cleaner Alternative

WOLF addresses each of these obstacles while achieving comparable or superior financing outcomes.

Distributed Risk:

Rather than concentrating risk in Euroclear, this approach distributes risk among international lenders who provide financing secured by pledged future income. These lenders would voluntarily assume credit risk at market terms. Euroclear's role remains unchanged: custody and generating windfall income as it does today.

Windfall Income Continues:

The immobilised assets remain frozen and continue generating windfall income. Whilst they are pledged for the duration of the loan they are used as collateral for, once this matures, this can either be rolled over, or direct contributions can resume. The EU should put in place a legal framework to regulate management of immobilised assets to provide certainty for (i) Euroclear and all other financial institutions holding immobilised Russian state assets and (ii) the lenders whose debt would be financed by profits earned on reinvestment of immobilised funds.

Fixed-Term Commitment Provides Certainty:

The core concept, the fixed-term commitment, solves the temporal uncertainty problem that

plagues current arrangements. Lenders can price risk with confidence when they know the income stream continues for a defined 10, 15, or 20 years. This certainty enables borrowing at reasonable terms.

No Institutional Opposition:

This requires no increase in Euroclear's operational burden or risk exposure. The fixed-term commitment is a political decision by the European Council, not an operational change for Euroclear.

Political Feasibility:

Converting an indefinite freeze to a fixed-term is conceptually simpler than the reparations loan arrangements member states have rejected. They are only being asked to commit to maintaining sanctions for a defined period, something they're effectively doing already, albeit without the temporal precision that enables borrowing. The legal pathway is straightforward: the adoption of a Council Regulation, consistent with the existing framework for CFSP sanctions measures.

A new, enhanced, ERA

In June 2024, the G7 launched the \$50 billion Extraordinary Revenue Acceleration (ERA) loans to Ukraine, repaid from windfall profits on immobilised Russian assets.

The structure is proven and operational. The United States committed \$20 billion, the European Union €18.1 billion, the United Kingdom £2.26 billion, and Canada CAD \$5 billion. Multilateral lenders advance funds today, with repayment coming from the annual windfall income that Euroclear generates from the €193 billion in immobilised Russian Central Bank assets. The EU's contribution carries loan maturities extending up to 45 years. All funds have been fully disbursed as of December 2024.

Despite these 45-year loan maturities, the G7 advanced only \$50 billion against a windfall stream that will generate a multiple of this amount over 45 years.

The constraint was not loan maturity but sanctions duration uncertainty. EU economic sanctions against Russia did at the time require renewal every six months. Each renewal requires unanimous agreement among all member states. This creates temporal uncertainty.

Lenders couldn't size loans to the 45-year maturity because sanctions might not be renewed and advanced only what could be comfortably repaid in a worst-case scenario where renewals stop sooner than expected.

The fundamental mismatch between the 45-year loan maturity and six-month renewable sanctions imposed inefficient levels of conservatism in loan sizing.

The proposed solution addresses this constraint by converting six-month renewable sanctions to a fixed freezing term that can of course be renewed. With a credible fixed-term commitment, lenders know sanctions will continue for the full period without requiring 20 or 40 successive renewals. They can size loans appropriately to the income stream. A 20-year sanctions commitment provides more borrowing capacity than a 45-year loan maturity with six-month renewable sanctions, because lenders need renewal certainty, not just legal maturity.

Like ERA, the proposed solution requires no member state budget appropriations, since it is only the income from the Russian immobilised assets that finances everything. And it builds directly on ERA's validated conceptual framework rather than proposing something radically different.

The two mechanisms could operate in parallel, with new loans structured as additional tranches or sequential facilities complementing ERA.

The G7 proved that borrowing against windfall income works. They achieved \$50 billion immediate financing with 45-year maturities despite six-month renewable sanctions.

The proposed approach represents a logical evolution of the ERA concept, using the same validated approach, executed more effectively

through one incremental change that unlocks the leverage achievable with multi-year certainty.

2. Heal the world, make it a better pledge

Current Sanctions Framework

Following Russia's invasion of Ukraine in February 2022, the European Union immobilised Russian Central Bank assets held within its jurisdiction. Approximately €193 billion of these assets are held at Euroclear Bank in Belgium. Initially, as with most sanctions regimes, the freeze operated through regulations requiring periodic renewal, typically every six months.

This created rolling uncertainty about whether sanctions would continue, requiring repeated political decisions to maintain the measures.

The EU has since moved to a more durable framework. Current regulations establish the freeze on an indefinite basis, meaning there is no automatic expiry date requiring renewal. The freeze continues unless and until the EU affirmatively acts to lift it. This represented significant political progress, demonstrating European resolve to maintain pressure on Russia for as long as necessary.

Alongside the indefinite freeze, the EU established a windfall contribution mechanism. Council Regulation 2024/576 requires central securities depositories holding Russian Central Bank assets to account for and manage cash balances separately.

Subsequent European Commission regulations mandate that profits generated from reinvestment of these frozen amounts be contributed to the European Fund for Ukraine, after retention of 10 per cent for capital and risk management. Euroclear made its first windfall contribution of €1.55 billion in July 2024, with a reported approximately €1.6 billion for July

2025 (full figures for 2025 are yet to be confirmed).

This framework represents a genuine achievement. The indefinite freeze removes the need for repeated political battles over renewal. The windfall mechanism directs substantial resources to Ukraine without requiring additional fiscal contributions from member states. And the arrangement operates entirely within existing legal authorities, requiring no appropriation of Russian principal and raising no novel questions about confiscation or compensation.

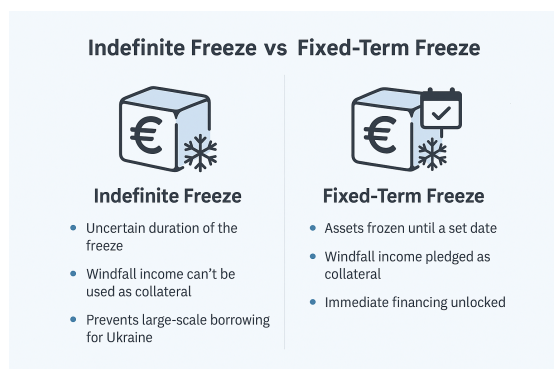
Why Indefinite is Counterintuitively Suboptimal

For all its political virtues, the indefinite nature of the freeze creates a fundamental financial constraint. Indefinite does not mean permanent. It means that the freeze continues until circumstances change and the EU decides to lift it. That decision could come at any time: next month, next year, or not for decades. The temporal horizon is unknowable.

This temporal uncertainty makes the windfall income stream ill suited to be pledged as collateral for borrowing.

Lenders price uncertainty as risk. When the duration of an income stream is unknowable, the amount lenders will advance against it falls dramatically. They demand very large discounts, or haircuts, to protect against the possibility that the income terminates sooner than required to repay their advances. At the extreme, if duration uncertainty is sufficiently acute, lenders may decline to lend at all, regardless of haircut, because the risk cannot be adequately quantified or priced.

This explains why current arrangements limit Ukraine to receiving windfall contributions as they are generated, year by year. The €1.55 billion contributed in 2024 and the €2 billion expected in 2025 represent genuine support, but they arrive slowly over time. Ukraine cannot efficiently borrow against future contributions because the indefinite nature of the freeze makes those future contributions too uncertain to optimally serve as collateral. The temporal ambiguity that makes indefinite freezes politically attractive simultaneously makes them financially sterile.



The Economic Cost of Temporal Uncertainty

The economic cost of this constraint is substantial. Ukraine faces immediate defence needs alongside reconstruction requirements estimated at €500 billion. The war continues, requiring sustained military capability to defend territory and deter further Russian aggression.

Critical infrastructure destroyed by Russian attacks must be rebuilt now. Housing must be provided for displaced populations now. Basic services must be restored now. Economic activity must resume now. Delay in either defence support or reconstruction compounds costs, deepens suffering, and weakens Ukraine's ability to resist Russian aggression.

Consider the arithmetic of the current approach. Assume frozen assets generates approximately €5.5 billion in annual windfall income. If this continues for 15 years, Ukraine will receive €82.5 billion in total over that period. This sounds substantial. But Ukraine

does not receive €82.5 billion in economic value. It receives €5.5 billion in year one, another €5.5 billion in year two, and so forth. Money arriving in year 10 or year 15 is worth dramatically less than money available today, both because of the time value of money and because of the real, human urgency of the needs.

The present value of €82.5 billion arriving in €5.5 billion annual installments over 15 years, discounted at even a modest 3.5 per cent rate, is only approximately €63 billion.

And this still understates the problem, because Ukraine cannot effectively deploy annual allocations for large-scale defence and reconstruction. Rebuilding a destroyed city's electricity grid, water system, or transport network requires tens of billions in upfront capital to achieve economies of scale and project completion. Annual allocations of €6 billion, no matter how reliably delivered, cannot support this kind of coordinated large-scale defence and reconstruction.

Contrast this with what the fixed-term commitment enables. Rather than €63 billion in present value arriving slowly over 15 years in forms that cannot support large-scale projects, Ukraine could receive this amount immediately, deployable now for coordinated reconstruction at scale. This is not merely quantitatively different but qualitatively transformative. It is the difference between incremental repair and comprehensive rebuilding, between managing decline and enabling recovery.

Traditional fiscal sources struggle to fill this gap. European member states face their own fiscal constraints. Defence spending is increasing. And political appetite for large-scale grant funding to Ukraine, whilst real, has limits. If tens of billions could be mobilised for Ukraine through innovative use of immobilised Russian assets without requiring new taxes or spending cuts, this would be transformational. But the risks involved with the rejected proposal and the indefinite nature of the current freeze prevent this from happening.

3. The Value of a Fixed-Term Commitment

Core Concept

The central idea is to convert the indefinite freeze into a fixed-term commitment. Rather than assets remaining frozen until the Council decides otherwise, they remain frozen until a specified date or for a specified term. For example, the EU might adopt a regulation providing that Russian Central Bank assets shall remain immobilised until 31 December 2040, or alternatively that they shall remain frozen for a period of 15 years from the date of adoption, whichever formulation proves legally and politically preferable.

This simple change transforms the financial character of the windfall income stream. Lenders can now calculate with confidence the duration for which income will continue. They know that for 15 years, absent extraordinary circumstances, windfall contributions will flow. This predictability makes the income stream pledgeable as collateral. Standard financial techniques for valuing and borrowing against future cash flows become applicable. The European Commission or another designated entity can borrow against the income stream, offering lenders priority claims on windfall contributions in exchange for immediate capital.

Critically, the fixed-term commitment need not represent any hardening of the sanctions regime. Assets frozen until 2040 might be unfrozen sooner if a comprehensive peace settlement is reached that includes Russian agreement to pay reparations. The EU would build appropriate safeguards into the regulation, specifying that the freeze terminates upon satisfaction of defined conditions such as those already provided in Article 6 of Council Regulation 2025/2600, including Russian seizure of its war of aggression and payment of reparations to Ukraine. The fixed term establishes the

baseline expectation but does not preclude earlier termination under appropriate circumstances.

Borrowing Capacity under Fixed-Term Commitment

With a fixed-term commitment in place, immediate borrowing capacity can be calculated using standard financial techniques. But first, it is essential to understand what the fixed-term commitment actually achieves. It is not primarily about generating more total money for Ukraine over time. Rather, it is about time-shifting when Ukraine receives that money, from slow arrival over many years to immediate deployment now.

A Fundamental Transformation

Without fixed-term commitment: Ukraine receives windfall contributions as they arrive gradually, year by year. The present value of this slow-arriving stream, properly discounted, is substantially less than the nominal total. More critically, Ukraine cannot deploy annual allocations effectively for large-scale defence and reconstruction requiring upfront capital.

With fixed-term commitment: Ukraine could receive approximately €63 billion immediately, assuming a 15 year freeze, deployable now for coordinated reconstruction at scale. The transformation is not multiplication but time-shifting, enabled by the strong credit profile of EU-guaranteed debt secured by a fixed-term commitment.

Calculation

The borrowing capacity depends on two key variables: commitment duration and annual windfall income. The calculation methodology is straightforward.



First, determine annual windfall income. Euroclear's recent financial disclosures provide clear evidence on current income generation. As the ECB has begun cutting rates, these returns are however declining. Using a conservative assumption of 3.5 per cent annual return on the current €193 billion in frozen assets, and after retention of the 10 per cent share for Euroclear's capital and risk management needs, generates annual windfall income of approximately €6.1 billion. Taking €5.5 billion as a realistic baseline for current conditions provides appropriate conservatism whilst reflecting actual recent performance.

Second, establish the commitment period. Assume the EU adopts a 10 to 20 year fixed-term freeze, with 15 years as the midpoint. This generates total nominal windfall income over the commitment period of €82.5 billion.

Third, discount to present value. Future cash flows must be discounted to reflect time value of money. For European Union backed obligations, a discount rate of approximately 3.5 per cent is appropriate given the EU's AAA credit rating. Applying this rate produces a present value of approximately €63billion.

The income stream derives from professionally managed assets held at Euroclear, a

systemically important financial market infrastructure with implicit European Central Bank support.

The borrowing carries explicit EU guarantee, effectively making this AAA-rated sovereign debt. The fixed-term commitment provides temporal certainty that eliminates duration risk. The combination of EU sovereign guarantee, systemic importance of Euroclear with ECB backstop, and fixed-term certainty justifies lending at 100 per cent of present value with minimal or no haircut. Unlike typical asset-backed structures where haircuts protect against credit risk and asset volatility, here the EU guarantee eliminates credit risk entirely and the income stream's predictability eliminates cash flow uncertainty. A loan-to-value ratio of 100 per cent therefore seems appropriate.

Applying this methodology across the range of scenarios produces the borrowing capacity matrix shown below. The framework is robust: even conservative assumptions (10 years, €3.5 billion annually) unlock €29 billion immediately. 20 years, assuming €5.5 billion annually unlock €78 billion.

Commitment Term	€3.5bn/year (Conservative)	€4.5bn/year (Moderate)	€5.5bn/year (Enhanced)	€6.5bn/year (Optimised)
10 years	€29bn	€37bn	€46bn	€54bn
15 years	€40bn	€52bn	€63bn	€75bn
20 years	€50bn	€64bn	€78bn	€92bn

Note: NPV calculated at 3.5% discount rate, 100% loan-to-value ratio. Yellow highlights the base case scenario (15 years, €5.5bn annually).



4. Legal Pathway

Adopting a fixed-term commitment requires action but presents no novel legal obstacles. Sanctions policy falls within the Common Foreign and Security Policy competence of the European Union under Articles 23 to 46 of the Treaty on European Union. The Council acts by unanimity in this domain pursuant to Article 31 TEU, with the European Parliament being consulted but having no veto.

The Council has already exercised this authority extensively in relation to Russian assets. Regulation 833/2014 and its numerous amendments establish the sanctions framework. Regulations 2025/2600 and 2024/576 respectively established the current indefinite immobilisation and separate accounting requirements. Nothing in EU law prevents the Council from converting an indefinite freeze to a fixed-term freeze; this is well within the Council's discretion in calibrating sanctions measures.

The regulation establishing the fixed-term commitment should include several key provisions. First, a clear statement that Russian Central Bank assets held at central securities depositories within the EU shall remain immobilised until a specified date or for a specified term. Second, set out conditions under which the freeze may be terminated early, which are already stated in Article 6 of Regulation 2025/2600, namely that Russia ends its war of aggression, pays reparations to Ukraine and “Russia’s actions in the context of its war of aggression against Ukraine have objectively ceased to pose a serious risk of severe difficulties to the economy of the Union and its Member States”. Third, a provision specifying that modification or repeal of the

fixed-term commitment requires unanimous Council approval, ensuring the commitment's durability. Fourth, provisions directing windfall income to a designated entity for purposes of supporting Ukraine's defence and reconstruction financing. [Fifth, clear directions as to the management of the immobilised assets to ensure maximisation of profits.]

The political pathway requires building consensus among member states that the benefits of fixed-term commitment outweigh any perceived costs. Several arguments support this consensus. The fixed-term commitment does not make sanctions harsher than the current indefinite approach; it merely provides temporal clarity and remains temporary provided the conditions already set out for the removal of sanctions are satisfied. It unlocks substantial immediate financing for Ukraine without requiring additional fiscal contributions from member states. It demonstrates European credibility and resolve in supporting Ukraine for the long term. And it retains the same diplomatic flexibility as the current indefinite freeze due to the same off-ramp provisions.

The proposal addresses all of Belgium's concerns which merits particular attention given Euroclear's location in Brussels. The fixed-term commitment should actually reduce Belgian concerns compared to more aggressive proposals like direct use of frozen principal. The commitment does not touch principal, involves no confiscation, and merely provides temporal certainty about an income stream that already flows to Ukraine under existing arrangements.



5. Return Optimisation

Return Optimisation as an Additional Opportunity

Alongside the establishment of a fixed-term commitment, the optimisation of returns on frozen Russian assets can significantly increase available borrowing capacity. Currently, Euroclear holds the frozen Russian assets predominantly in cash at the ECB. This conservative approach generates returns of approximately 3.5 per cent.

Importantly, the proposed return optimisation would merely replicate how Russia itself managed these assets before they were frozen. Prior to sanctions, the Central Bank of Russia actively managed its foreign reserve portfolio through diversified investment in high-quality securities to generate appropriate risk-adjusted returns. Russia did not hold its €193 billion in reserves as idle cash; it invested them professionally in government bonds, covered bonds, and other investment-grade instruments to maximise returns whilst maintaining liquidity and safety. The suggestion that Euroclear return these assets to normal investment practices is not novel or aggressive - it simply restores the investment approach that Russia itself employed before February 2022.

If Euroclear treated the frozen Russian assets consistently with its other custody assets, returning them to the normal investment pool whilst maintaining the separate accounting required by sanctions regulations, returns would increase substantially.

A professionally managed portfolio of investment-grade securities would generate substantially higher returns than cash deposits at central banks.

A diversified portfolio of investment-grade securities with appropriate duration typically yields 5 to 6 per cent under normalised market conditions. This would include a blend of sovereign bonds from AAA-rated European

governments yielding 3 to 4 per cent, investment-grade corporate bonds yielding 4 to 5 per cent, and covered bonds and similar secured instruments yielding 4 to 5 per cent. A portfolio weighted toward higher-quality, shorter-duration instruments to maintain appropriate liquidity and safety might generate blended returns at the lower end of this range.

Taking 5.2 per cent as a conservative assumption for a professionally managed portfolio balancing return objectives with safety and liquidity requirements, and applying this to the €193 billion in frozen assets, generates gross annual income of approximately €10 billion. After retention of the 10 per cent share for Euroclear's capital and risk management requirements, this produces annual windfall income available for Ukraine support of approximately €9 billion. This represents a 50 per cent increase over the approximately €6 billion being generated under current arrangements even after recent ECB rate cuts.

Applying the same financial analysis as in Chapter 3, but with the enhanced €9 billion annual income stream, produces dramatically higher borrowing capacity. A 15 year commitment period with €9 billion annual income generates €135 billion in nominal cash flows. Discounting at 3.5 per cent produces present value of approximately €110 billion. With 100 per cent loan-to-value given the EU guarantee, this supports borrowing capacity of up to €110 billion - well exceeding the €90 billion target and providing substantial buffer for conservative implementation.

This enhancement is made possible by the establishment of a fixed-term commitment. Without temporal certainty, the enhanced income stream cannot be efficiently pledged as collateral regardless of its size.

Legal Basis for Return Optimisation



The legal basis for return optimisation rests on Belgian law governing Euroclear's operations, as established in Royal Decree No. 62 and Euroclear's contractual Terms and Conditions, together with EU sanctions regulations.

Fungibility and Pooled Investment Under Belgian Law

Article 4(a) of Euroclear's Terms and Conditions governing use of Euroclear provides that securities held in the Euroclear System are governed by Royal Decree No. 62 of 10 November 1967 on the Deposit of Fungible Financial Instruments and the Settlement of Transactions involving such Instruments. This Royal Decree, as supplemented by related Belgian legislation including the Law of 2 January 1991 on public debt securities, establishes the legal framework for securities custody in Belgium.

Under Article 6 of Royal Decree No. 62, securities held in the Euroclear System are fungible. As explained in Euroclear's Rights of Participants document (Section 2.2.1), this means that once securities are accepted for deposit, it is no longer possible to identify a specific security by serial number or otherwise as belonging to a particular participant. Rather, Article 2 of Royal Decree No. 62 grants participants an intangible co-ownership right over the pool of book-entry securities in the relevant category that Euroclear holds on behalf of all participants holding securities in that category.

This fungibility principle is central to efficient custody operations. Section 4(c) of the Terms and Conditions confirms that securities held in the Euroclear System will be held with Euroclear except that Euroclear may hold securities with any depository, including through subcustodians or other central securities depositories. The fungibility regime allows Euroclear to hold pooled assets and invest them collectively rather than maintaining separate physical custody of each participant's holdings.

Critically, nothing in Royal Decree No. 62, the Terms and Conditions, or Belgian law requires that frozen assets be treated differently from

other pooled assets in terms of investment approach, provided that appropriate accounting separates frozen assets for sanctions compliance purposes. Section 12(c) of the Terms and Conditions requires Euroclear to maintain reconciliation policies and procedures to ensure the integrity of securities held in the system, involving cooperation and information exchange with third parties where needed. This obligation to maintain accurate records applies regardless of how securities are invested, provided the total pool remains intact and properly accounted for.

Ownership of Investment Income

A critical question is who owns income generated from investment of pooled assets. Under Belgian law and Euroclear's Terms and Conditions, this income belongs to Euroclear, not to participants.

When securities are deposited with Euroclear, participants receive co-ownership rights in the pooled securities under Article 2 of Royal Decree No. 62. Section 2.2.6 of the Rights of Participants document confirms that this co-ownership right includes a right to vote and a right of recovery in the event of Euroclear's bankruptcy. However, income that Euroclear generates through its investment and intermediation activities using those pooled securities is income to Euroclear itself, not income that passes through to participants.

Section 5 of the Terms and Conditions addresses payments with respect to securities, providing that Euroclear will distribute to participants the payments it receives with respect to securities credited to their accounts. Section 5(a) specifies that all payments of principal, premium, interest or dividends Euroclear receives with respect to securities will be distributed to account holders. This refers to payments that issuers make on securities, such as coupon payments on bonds or dividends on equities. It does not refer to or constrain income that Euroclear earns through its own investment and intermediation activities.

The distinction mirrors traditional banking custody relationships. When clients deposit



assets with banks, clients have claims to return of equivalent assets but do not own interest or returns that banks earn by lending or investing those deposits. Bank income from intermediation activities belongs to the bank. The same principle applies to Euroclear's custody operations. Participants can demand return of equivalent securities and can exercise voting and other participation rights, but income that Euroclear generates through efficient operation of the custody system, including through securities lending, collateral management and investment of pooled assets, belongs to Euroclear.

This analysis is particularly clear for immobilised Russian assets. Russia's participation rights in the Euroclear System are suspended by sanctions. Russia cannot demand return of assets, cannot provide settlement instructions, and cannot exercise other participant rights. In these circumstances, income generated from investment of the frozen principal manifestly belongs to Euroclear rather than Russia. The EU windfall contribution mechanism recognises this by requiring Euroclear to contribute these profits to the European Fund for Ukraine. Russia has no legal claim to these amounts.

EU Sanctions Regulations and Separate Management

EU sanctions regulations require that central securities depositories holding Russian Central Bank assets account for and manage cash balances separately from other activities and keep separate the net profit generated. Council Regulation (EU) 2024/576 amending Regulation (EU) 833/2014 establishes this separate management requirement. The subsequent European Commission regulation on windfall contributions requires that profits generated by reinvestment of sanctioned amounts be contributed to the European Fund for Ukraine.

The critical interpretive question is whether the separate management requirement mandates that assets be held in cash form, or whether it permits investment in securities provided

rigorous separate accounting is maintained. The regulation's language focuses on separate management and accounting to ensure profits can be identified and contributed to Ukraine. This objective is fully achieved through rigorous accounting systems that track the frozen assets and their associated returns, regardless of whether the underlying assets are held as cash deposits or invested in securities portfolios.

Moreover, the windfall contribution regulation's requirement to contribute profits generated by reinvestment of sanctioned amounts implicitly contemplates that reinvestment will occur. The regulation does not mandate that assets sit idle in non-interest bearing accounts; it recognises that depositories will invest these amounts to generate returns. If the regulation intended to require cash-only holdings, it could easily have specified this explicitly. The absence of such language, combined with the express reference to reinvestment, supports the interpretation that securities investment with separate accounting satisfies the regulatory requirement.

Finally, maximising returns on frozen assets serves the sanctions regime's stated policy objective of supporting Ukraine. By generating larger windfall profits through prudent investment in securities rather than conservative cash holdings, Euroclear increases the amounts available for Ukraine defence and reconstruction. Interpreting the regulation to prohibit investment approaches that would enhance support for Ukraine would be inconsistent with the regulation's own purpose.

To ensure that no doubt remains about whether current regulations permit securities investment, the European Commission or Council can provide interpretive guidance or adopt amended regulations confirming explicitly that securities investment with separate accounting satisfies the separate management requirement. Such clarification would be consistent with the overall objectives of the sanctions regime and would facilitate the enhanced Ukraine support that return optimisation enables.



6. Implementation Pathway

Sequencing

Implementation should follow a deliberate two-stage sequence, though both stages should advance in parallel.

Stage one focuses on initiating immediate discussions with Euroclear regarding return optimisation. Stage two involves securing formal legislative approval through a Council regulation establishing both the fixed-term commitment and endorsing the return optimisation in law. Critically, discussions with Euroclear must begin now and cannot wait for legislative approval given the urgency of Ukraine's needs and the wasteful nature of current investment practices.

This sequencing is strategically important for several reasons.

First, Euroclear discussions require time and careful technical work. Beginning these conversations immediately ensures that operational readiness can be achieved in parallel with the legislative process, avoiding delays once Council approval is secured. The current investment strategy - holding €193 billion predominantly in cash - is demonstrably wasteful and should be changed as quickly as possible, ideally concurrent with the fixed-term commitment vote.

Second, early Euroclear engagement provides clarity for the legislative process. If Euroclear signals readiness for return optimisation, the Council can vote on both measures simultaneously with confidence. If Euroclear raises substantial concerns requiring more time to resolve, the Council can – and should – still proceed with the fixed-term commitment alone, knowing that return optimisation can follow once operational issues are addressed. But waiting to start Euroclear discussions until after legislative approval is inadvisable.

Third, beginning discussions now signals that return optimisation is not a distant possibility

but an immediate priority. This focused engagement increases the likelihood of Euroclear cooperation and allows technical, operational, and legal concerns to be addressed systematically rather than rushed once legislation passes.

Fourth, parallel advancement of both tracks demonstrates efficient use of the policy process. Member states can deliberate on the legislative framework whilst technical teams work with Euroclear on implementation details. When the Council is ready to vote, it can do so on both the fixed-term commitment and return optimisation together, based on concrete operational plans rather than theoretical possibilities. The vote should however not be held back to wait for the Euroclear discussions to be completed.

Stage One: Initiate Return Optimisation Discussions with Euroclear

Stage one requires immediate engagement with Euroclear's management and board regarding return optimisation. This dialogue should begin now, in parallel with preliminary political discussions among member states about the legislative framework.

This stage requires both regulatory clarification and Euroclear operational changes.

The regulatory component involves European Commission guidance or Council regulation confirming that the separate management requirement in sanctions regulations is satisfied by rigorous separate accounting and does not mandate holding frozen assets in cash form. This clarification should be relatively straightforward given that it serves the sanctions regime's objectives of maximising support for Ukraine.

The operational component requires Euroclear's agreement to return frozen assets to normal investment pool whilst maintaining



enhanced separate accounting. Securing this agreement requires addressing Euroclear's legitimate concerns about operational complexity, regulatory compliance, and potential liability exposure.

If Euroclear agrees to return optimisation, implementation would involve establishing enhanced accounting systems to track frozen assets as they move into securities portfolios, developing investment policy for the frozen assets balancing return generation with appropriate risk management, and implementing regular reporting to authorities demonstrating ongoing compliance with separate accounting requirements.

If Euroclear declines return optimisation or negotiations prove protracted, the structure still delivers through the fixed-term commitment alone. Return optimisation is a valuable enhancement but not essential to achieving transformational improvement over current arrangements.

Stage Two: Secure Legislative Approval

Stage two involves securing Council approval through a comprehensive regulation that addresses both the fixed-term commitment and return optimisation.

Based on the technical groundwork laid in Stage One, the Council should ideally vote on both measures simultaneously.

The engagement should emphasise four core messages.

First, the fixed-term commitment is a small technical step that unlocks large practical benefits. It does not make sanctions longer or harsher. It merely provides temporal certainty that enables borrowing against windfall income. This framing emphasises continuity with existing policy rather than radical innovation.

Second, the fixed-term commitment generates immediate Ukraine financing without requiring any additional fiscal contributions from member states. At a time when fiscal space is constrained and competing priorities abundant, this represents extraordinary value. Member states can demonstrate tangible support for Ukraine defence and reconstruction without new taxes or spending cuts.

Third, the fixed-term commitment is consistent with proportionality principles governing sanctions. Given the scale of Russian aggression and destruction in Ukraine, a 10 to 20 year freeze seems entirely proportionate. It is not permanent confiscation but rather temporary immobilisation with clear temporal boundaries and defined off-ramps.

Fourth, the fixed-term commitment actually enhances diplomatic flexibility through carefully crafted off-ramps. Rather than indefinite freeze creating binary maintain or remove decisions, fixed-term freeze with conditions allows early termination to be framed as Russia satisfying specified requirements. This may make sanctions relief more politically feasible in appropriate circumstances.



7. Conclusion

Almost There

The European Union has travelled most of the journey. It froze Russian Central Bank assets. It moved from rolling renewals to indefinite freeze. It established windfall contributions to Ukraine. These were difficult political decisions requiring genuine courage and resolve. It then committed to a €90 billion loan financed through its own balance sheet, a commitment now stalled by Hungary's veto, and one whose fragility only underscores the case for a more durable solution rooted in Russian assets themselves.

One step remains. Converting the indefinite freeze to fixed-term commitment unlocks immediate financing depending on term length, with potential in excess of €90 billion through extended commitment periods and return optimisation. That step is not harder than steps already taken. It is technically straightforward, legally sound, and politically achievable. It does not make sanctions harsher or longer. It merely provides temporal certainty.

The alternative is continuing with current arrangements where Ukraine receives windfall contributions gradually over many years. This delivers genuine support but lacks the scale and immediacy that Ukraine's reconstruction needs demand. Tens of billions in immediate financing would transform Ukraine's reconstruction prospects. It would demonstrate

European credibility and resolve. It would show Russia that its aggression carries real financial costs mobilised effectively for Ukraine's benefit.

The critical insight is that temporal certainty unlocks borrowing capacity, which itself can be maximised by optimising the returns generated by frozen assets. An indefinite freeze, for all its political virtues, cannot serve as collateral. A fixed-term freeze, even if shorter in duration than an indefinite freeze might ultimately prove, transforms the income stream into pledgeable collateral. This is not complex financial engineering or aggressive legal interpretation. It is straightforward application of basic financial principles to the particular constraints of the sanctions regime.

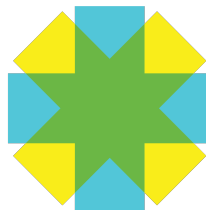


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