



EUROPEAN COMMISSION

Expert Group on Debt Redemption Fund and Eurobills

## MINUTES OF THE MEETING OF 12 NOVEMBER 2013; 8:30-16:30

Brussels, Rue de la Loi 200, Berlaymont Building, Room 7/62

**Participants:** Ms Gertrude Tumpel-Gugerell (chair); Ms Agnès Bénassy-Quéré; Mr Vítor Bento; Mr Graham Bishop; Mr Leonardus (Lex) Hoogduin; Mr Ján Mazák; Ms Belén Romana; Mr Vesa Vihriälä; Ms Beatrice Weder di Mauro.

Absent: Ms Claudia Buch; Ms Ingrida Šimonytė

**Secretariat:** Clemens Ladenburger, Carsten Bermig, Magdalena Lewandowska, Alessio Silva.

The chair opened the meeting by welcoming the participants and thanking them for the timely submission of excellent working papers and presentations. She asked for approval of the agenda. The Expert Group approved the agenda.

The Expert Group took note of three working papers intended to clarify the concept of a debt redemption fund (DRF), i.e. core features of the concept and possible variants to be analysed. These working papers formed a basis for the in-depth discussion on DRF in the afternoon part of this meeting.

The Expert Group heard and discussed the first part of a presentation, circulated beforehand as working paper, on Eurobills. The focus was on key basic features of the eurobills idea, several variants of that idea, possible objectives and key benefits. Amongst the variants presented and discussed were those concerning the guarantee structure, the maximum length of maturities covered and consequences on the size of a eurobills fund, Member States' eligibility for participation and how to define conditionality and ensure coherence with the EU's economic governance framework. A key point in the discussion concerned the various possible objectives of a eurobills scheme. A question was raised concerning the ratio between the size of a possible Eurobills fund and the positive effects that one could hope for. A further focus of discussion was on whether a eurobills scheme should be introduced as temporary or permanent, the legal dimensions of this question and on market acceptance. The chair concluded that this first discussion was extremely useful and that the Expert Group will come back to eurobills in more depth at its next meeting.

The Expert Group then examined legal aspects of joint issuance of debt in the form of DRF and / or eurobills, on the basis of a presentation and a working paper circulated beforehand.

Such legal aspects included the no bail-out clause, as interpreted in the "Pringle" judgment of the European Court of Justice, and its impact on possible guarantee structures, the question whether and to what extent there might currently be competence for establishing a DRF and / or eurobills scheme by EU legislation, and the possible need for a change of the EU Treaties depending on the desired features. The legal position in relation to certain suggestions made for credit enhancement (collaterals) was also noted. Finally, basic principles flowing from the case law of certain constitutional and supreme courts concerning the budget autonomy of national parliament were explained.

In the afternoon, the Expert Group examined in detail the DRF idea, starting with issues of financial design and sovereign debt management on the basis of a presentation and a working paper circulated beforehand. The presentation and discussion included debt quality of a DRF's emissions depending on its guarantee structure and possibilities and problems with ideas on credit enhancements. The feasibility of joint and several liability was commented on legal and financial market grounds. Macro-economic considerations were submitted on the need for countries to produce primary surpluses simultaneously, although it was recognised that that issue arose more from the obligations stemming from existing EU law than from introducing a DRF. There was a discussion on the time span necessary to redeem very high stocks of debt. The status of specific types of countries in a DRF (Member States under macroeconomic adjustment programmes, Member States with total debt level below 60% of GDP). The Expert Group also examined institutional options for debt management.

The second part of the afternoon was dedicated to a presentation (circulated beforehand) and discussion on strengths and weaknesses of a DRF. Starting from a presentation of the features of a "benchmark" DRF including a "redemption pact", strengths were identified mainly as a function of the various main objectives one would want to pursue with a DRF and pact. Possible weaknesses or problems included moral hazard, the high level of financial liabilities involved, the impact on interest costs for some countries and the position of certain euro area countries in case they were not involved. It was noted that important variants of the DRF needed to be taken into account, in particular those influencing the overall size of the fund and the definition of participating Member States. The governance of a DRF was identified as a feature insufficiently analysed so far, including its links to the current EU economic governance, and the role of the European Commission in a DRF scheme.

The chair concluded underlining the thorough and focused character of the discussion on the DRF idea.

The chair confirmed that a supplementary meeting would be held in December so as to go into more depth on a limited number of questions emerging from the discussions of this meeting and the next.