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Response to the European consultation on the feasibility of Stability Bonds

The Af2i welcomes and is ready to support the project of issuances of European bonds as we expect to access to a deep and wide source of assets with a low profile of risk and a high level of liquidity over every kind of duration.

We do support this project, but we ask for three provisions :

- The "stability bonds" is not an appropriate name as we wish to get a permanent steady financing scheme for member states of the Euro zone.
- Immediate departure for the designing and the implementation as the markets need to consider long term heavy, steady and relevant projects as soon as possible
- Credibility, meaning very cautious diligences in the implementation itself

First of all, Af2i consider that this new kind of bond issuance should not be a new provisional and exceptional financing system as FESF and ESM. It has to be a brand new type of State bond issued in Euro Zone, created in a long term perspective for all institutional or personal investors.

In other words, Eurobonds have to be a real substitute of national State bonds and in this case, "stability bond" are not an appropriate name.

In common meaning, Euro bonds are bonds issued by Member States of Euro zone and denominated in €uro. As they should be a new type of State Bonds, we could imagine that they could be issued with a fixed or variable interest rate or linked on Euro Zone inflation. They could be created for the short term Euro Bills (with 397 days maximum life) or as long maturity bonds.

A European Agency should be in charge of the issuance and the distribution/reception of flows between her and the member States. Every country having need of funding with a different seasonality or maturity, the Agency will have to manage and coordinate the euro issuances planning. The authority will have to analyse the fiscal common progress, considering that all member States are aiming for the success of a more federal scheme.

At the beginning, the agency will have to fix the conditions for a Member State to benefit from the issuances. The guidance have to give a plain confidence for investors to be reimbursed at the final maturity. A few years later, the conditions should be more severe.

If is the case, the very first provision to be adopted and implemented is the creation of a single common accounting standard for all the budgets of the member States of the Euro zone. This accounting standard

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will allow more transparency and a clear split between the day to day expenses and the investment charges.

From this first point, we think it will become possible to compare and further to harmonize the budget situations of the member states. Of course the sole “investment charges” lot should be eligible to the Eurobonds finance scheme.

This very first step has to be engaged very soon, as it is rather simple and efficient and will deliver a starting signal to the markets.

As for the three options which are exposed in the “green paper”, we do think that the third option is not efficient because there is not any mutual guarantee and so, it does not bring any innovation about risks and rewards.

The first option is of course a dream option, but it includes, for the time being, a great deal of moral hazards, and so, it has to be considered as a Graal.

So, the second option is to be considered as fair and wise, but this option includes a progressive implementation of the Eurobonds issuances for the benefit of the member states which will comply with clear rules applied to the assessment of their situation through the new European Accounting Standard for Member States of the Euro Zone.

Of course the criteria for sorting the first member states involved in the Eurobonds scheme are to be described, and the common on-going control procedure has to be designed . We are very sure that all the member states will be highly motivated to reach the criteria and the best possible financial conditions.

We do stress the emergency to start this project by the “low fruit” which is the design of a new common accounting standard that will show to the all the actors of the markets a first concrete realization of a long term steady project for the Af2i members safe investments.

In conclusion, in our view, the Eurobond are the outcome of a process and not a prerequisite. The process being the respect of fiscal convergence regulations allowing a real credibility of the Eurozone face to investors.

The French Association of Institutional Investors (AF2i) has been founded in 2002 with the ambition to federate the French economic actors concerned by institutional asset management and techniques (pensions institutions, healthcare or contingency fund, insurance companies, associations, foundations, corporate and special legal institutions.).

Af2i has 75 members representing around 1 400 billions € of AUM and 50 “partners members” (banks, asset managers, etc.).

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