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Letters

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Securitising EU sovereign bonds

Marcello Minenna ("Risk segregation and market fragility in the eurozone", FT.com, June 8) proposes to gradually introduce a guarantee of sovereign bonds backed by the European Stability Mechanism. Such a proposal has merit, but it is politically contentious as it would result in risk mutualisation across the bloc.

On May 24, proposals to introduce sovereign bond-backed securities (SBBS) were published by the European Commission as a way to strengthen private risk absorption of sovereign bonds and reduce risk in the banking sector. SBBS are, in its simplest sense, the securitisation of sovereign debt obligations from all eurozone members according to their economic weight. The instruments would be issued and bought by private investors as they would enjoy the same low capital requirements as EU sovereign bonds. As private investors would bear any potential possible default, they do not involve the mutualisation of risks and losses across countries.

Creating a new and safe eurozone sovereign debt instrument would spread the risk of sovereign default, and help address the doom-loop concerns in Italy that threaten the viability of the euro project.

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