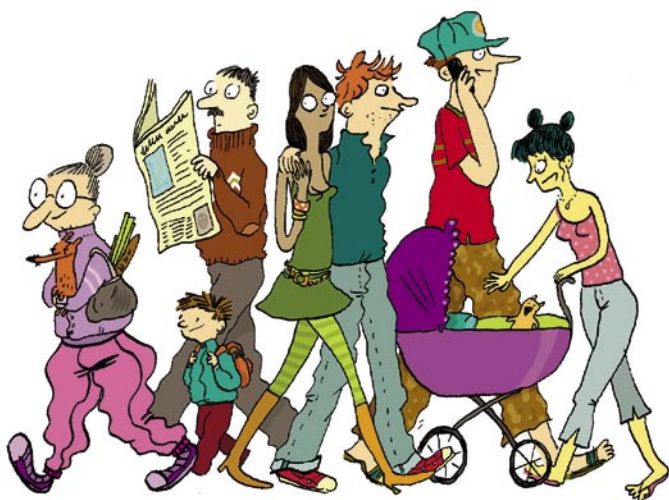


OATs

Investing directly

- Fixed-rate OATs
- Index-linked OATs
- Capitalisation OATs



User guide
for retail investors



AGENCE
FRANCE TRÉSOR

Managing your financial assets



Simplicity • Liquidity • Security

Fixed-rate, inflation-indexed and capitalisation OATs represent a range of investments corresponding to different investment objectives: regular income, a hedge against inflation, capitalisation, diversification...

with OATs

(Obligations Assimilables au Trésor - French Government Bonds)

French Government Bonds (OAT) are borrowing instruments issued by the French Republic for nearly 20 years now. The money involved is lent to the State, which enjoys the top rating (AAA rating granted by credit-rating agencies).

The issuing of these bonds under proper arrangements is organised by Agency France Trésor (AFT), the department of the French Finance Ministry tasked with handling public debt and treasury management in the most cost-effective and secure ways possible on the taxpayer's behalf.

The OAT market is now one of the most liquid and most popular markets with institutional investors.

- Working in partnership with Euronext and Primary Dealer banks (*Spécialistes en Valeur du Trésor or SVT*), Agency France Trésor (AFT) has set up a fully-fledged secondary market* enabling retail investors to purchase and sell OATs as easily as professionals.
- These days, the OAT market is accessible to everyone.

(* all terms marked with an asterisk appear in the glossary on p. 28)



*Now that I'm retired,
I need an additional
income that
is guaranteed.*

*I'm interested
in fixed-rate OATs.*

A three-fold benefit

- the market's liquidity
- the yield
- security of the investment

Fixed-rate OATs

Fixed-rate OATs are issued by Agency France Trésor for terms of up to 50 years; their nominal value* is €1. OATs are repaid as a lump sum at maturity*; they are always repaid at par, i.e. at their nominal value of €1 per bond. They are also known as “nominal OATs”.

OATs provide entitlement to an interest payment (known as the coupon*) once a year, throughout the life-time of the instrument, i.e. until it is repaid; the final interest payment is made on the repayment date. This annual coupon never varies, whatever the situation of the markets, throughout the life-time of the OAT: this is the characteristic of a “fixed-rate” instrument.

The maturity dates* of fixed-rate OATs, and coupon payment dates, are either 25 April or 25 October.

When you purchase a fixed-rate OAT on the market, you can therefore be sure, whatever acquisition price you have paid, of the amount repaid at maturity and of the interest annual, as these items never vary.

On the other hand, if you sell an OAT before its maturity date, you will dispose of it at the market price and, in relation to the acquisition price, realise a capital gain or capital loss in line with market trends.



Taking a concrete example OAT 4% 25 October 2014

Whatever the acquisition price, the capital repaid at maturity, in 2014, will be €1 per bond. The interest received each year is 4%, i.e. €4 per €100 invested, which is paid on 25 October each year until the maturity date, i.e. 2014.



I would like to have some savings invested over the long term to provide me with an additional income but I'm worried about inflation eroding their value.

I'm interested in inflation-indexed OATs.

A three-fold benefit

- the market's liquidity
- the purchasing power of the investment is protected
- portfolio diversification

Index-linked OATs

Index-linked OATs are real* fixed-rate* bonds, the principal* of which is at par at the time of maturity (always €1), which are protected against French inflation (OAT_i) or European inflation (OAT€_i). How? By index-linking the principal to a daily reference point calculated in relation to an index, viz.:

- the French consumer price index* (excluding tobacco) for OAT_i,
- the harmonised price index for the euro zone* (excluding tobacco) for OAT€_i.

The coupon, which is paid annually, is a fixed fraction of the indexed principal; it too is thus protected against inflation. The holder receives a fixed part that is predetermined by the percentage of the rate applied to the principal, and a variable part that is indexation to inflation.

OAT_i and OAT€_i are aimed at all categories of investors wishing to protect the purchasing power of their investments. France is the first country in the euro zone to have issued these. They also offer a means of diversifying a portfolio as their market price is on average less sensitive to interest-rate movements than that of nominal OATs.

Taking a concrete example

The latest coupon paid by the OAT_i 3% 25 July 2009

On 25 July 2005, the indexation coefficient for this OAT_i was 1.10984. An investor who owned 10,000 x €1 bonds on 25 July 2005, received a coupon of:

$3\% \times 10,000 \times 1.10984 = \text{€}332.95$. The usual formula is:
OAT_i coupon = 3% x face value x indexation coefficient.

If you sell an OAT before its maturity date, you will dispose of it at the market price and, in relation to the acquisition price, realise a capital gain or capital loss in line with market trends.

For further details concerning inflation-indexed OATs (calculating indexation coefficients, rounding rules, calculating accrued interest, etc.), please refer to the "Understanding indexed OATs" fact sheet on page 23.*



I don't need an additional income, but I need some secure long-term savings to prepare for my retirement.

I'm interested in capitalisation OATs.

A special benefit

→ Allows long-term savings to be built up with an initial investment costing less than buying a nominal fixed-rate OAT.

Since the capitalisation OAT does not pay any coupon, there is no need to worry about reinvesting coupons.

«zéro coupon» capitalisation OATs

Capitalisation OATs (also known as “zero coupon” or “stripped” OATs) are created from nominal fixed-rate OATs by separating out the coupon (“coupon certificate”) from the principal (“principal certificate”). It is this principal certificate that is a capitalisation OAT. This OAT does not give rise to payment of an annual coupon and the absence of a coupon is counterbalanced by a lower subscription price.

An investor who is not seeking an additional income knows, at the time he acquires the securities, how much he will receive when the instrument reaches maturity as the capitalisation OAT is always repaid at par i.e. €1.

The market value of the capitalisation OAT is necessarily below par. However, it fluctuates in line with the value of market rates and an investor who disposes of it before the maturity date might realise a capital gain or a capital loss.

The value of a capitalisation OAT is more sensitive to interest-rate movements than that of an OAT that has not been stripped and, particularly as its maturity date moves further away.

Taking a concrete example

The “principal certificate of the OAT 4% 25 April 2013”

This stripped OAT which could be acquired on the Euronext market for €0.7822 (closing price on 17/06/05) will be repaid at €1 when it reaches maturity, on 25 April 2013. In return for making an investment of €7,822 on 17 June 2005, the holder is certain to receive €10,000 on 25 April 2013. This amount at the time of repayment is guaranteed.

The investor does not receive any coupon between the time of purchase and repayment but, by holding onto the bond until its maturity date, he can be certain of making a capital gain of €2,178.

All stripped coupon certificates have a face value of €0.25. The nominal value of a principal certificate is €1. These days, only certain certificates of principal for OATs with an April maturity date are listed continuously on Euronext.

Active



To gain a better understanding of bonds and market mechanisms

management of your OAT

Please consult the following fact sheets:

p 12	What is a bond?
p 13	What is an OAT?
p 14	A secondary market tailored to retail investors
p 15-16	Where can I buy and sell OATs?
p 17	What does accrued interest mean?
p 18-19	How do you read OAT listings?
p 20	How do you calculate the amount paid or received when buying or selling an OAT?
p 21-22	How do you calculate the yield on an OAT?
p 23	Understanding indexed OATs
p 24	What is the yield curve?
p 25	What is an actuarial rate?
p 26-27	What tax treatment applies to OAT?
p 28-31	Glossary

What is a bond?

A bond is a transferable security that is a debt instrument. In legal terms, the bond bearer is a creditor of the bond issuer. He has lent the issuer money.

The issuer grants the following undertakings to the bearer or holder of a bond:

- he will repay the loan to him, at its maturity date,
- he will pay him interest on the sum of money borrowed: this interest is also known as the coupon*.

A bond is characterised by:

- **its face value*** or **principal***: the unit value of the bonds comprising a borrowing, which is used as the basis for calculating interest. It is also used as the basis for fixing the redemption value at maturity.
- **its coupon*** or **nominal interest rate***, i.e. the remuneration owed by the bond issuer to the bearer. This interest rate may be fixed or variable depending on the type of bond. The date from which interest is calculated is **the date of first entitlement to interest payments*** on the bond.
- **its maturity*** or **repayment date**. When it reaches maturity, the issuer will have paid the full repayment price of the bond, i.e. its principal plus any redemption premium.
- **its repayment methods**: the conditions under which the bond is repaid, e.g. as a lump sum or by means of periodic repayments (redemptions).

What is an OAT?



OATs (French Government Bonds) are transferable securities.

They constitute the financing method used by the State for long-term borrowing. Every year, the State has to be granted authorisation to borrow by the finance law.

An OAT is always a bond whose principal is repaid at the end, i.e. in the form of a single payment at the maturity date. OATs are instruments that are subject to assimilation*, and are issued for a term of up to 50 years.

In 2005, the State modernised the secondary market* for OATs aimed at retail investors, to enable them to carry out all purchase and sale transactions, on each Stock Exchange trading day, on a wide range of OATs listed on Euronext: www.euronext.com

Primary Dealer banks (SVT) undertake to continuously display a price spread and to act as market-makers for any orders placed. They make the market and contribute liquidity. This organisation system offers investors who purchase OATs the liquidity they are entitled to expect and regular information on prices.

→ **For further information on the State's debt and on SVT banks: www.aft.gouv.fr**

A secondary market* tailored to retail investors

Like any transferable instrument or security, OATs can be traded on the Stock Exchange at the market price at any moment.

In particular, retail investors can intervene on the market managed by Euronext, which operates in accordance with the stock-market regulations in force and obeys their rules governing transparency and information.

The way in which transactions on OAT are organised here had modernised in 2005 under the auspices of the State, to ensure that this market is properly tailored to the needs of retail investors:

→ Liquidity of the market

OATs enjoy a high level of liquidity. Indeed, financial establishments that are market-makers* have undertaken to oversee transactions. Retail investors can thus always find a price at which they can purchase or sell OATs.

→ Placing orders

Orders can be placed in the traditional way with financial intermediaries. They can also be placed via on-line broker HYPERLINKS. A list of financial intermediaries operating as partners of Agency France Trésor to ensure the smooth functioning of the OAT market appears on the www.aft.gouv.fr website, and on page 15 of this guide.

→ Safe custody charges

Safe custody charges, and any transaction costs on disposals taking place prior to the redemption date of OATs, are those specified in the financial intermediary's general terms and conditions covering transferable securities. No handling charges are applied to OATs.

If the same client owns several comparable* lines corresponding to the same counterfoil, the financial intermediary will only invoice safe custody charges for a single line, unless otherwise specified by the service-provider.

See opposite: "Where can I purchase and sell OATs"

Where can I purchase and sell OATs?



→ From our partner networks

- Banque d'Escompte & Wormser Frères réunis : www.oatdirect.com
- Barclays
- BNP Paribas : www.bnpparibas.net
- Bourse Direct : www.boursedirect.fr
- Boursorama : www.boursorama.com
- Groupe Caisses d'Epargne : www.caisse-epargne.fr
- C.I.C. : www.cic.fr
- CPR Online : www.cpr-online.com
- Crédit Agricole : www.creditagricole.fr
- Crédit Mutuel : www.creditmutuel.fr
- Fortuneo Direct Finance : www.fortuneo.com
- Groupe Banque Populaire : www.linebourse.fr
- HSBC France : www.hsbc.fr
- La Banque Postale : www.labanquepostale.fr
- LCL Le Crédit Lyonnais : www.lcl.fr
- Société Générale : www.particuliers.societegenerale.fr

Where can I purchase and sell OATs? (cont'd)

→ Who are the players in the market?

8 Spécialistes en Valeurs du Trésor (SVT) :

- Barclays
- BNP Paribas
- Calyon
- HSBC Securities
- IXIS CIB
- Natexis - Banques Populaires
- Société Générale
- UBM

2 teneurs de marché :

- Binck
- Van der Moolen

→ For further information

- the AFT website: a dedicated area for retail investors:

<http://oatparticuliers.aft.gouv.fr>

The screenshot displays the Agence France Trésor website interface. On the left is a navigation menu with categories like 'AGENCE FRANCE TRÉSOR', 'LE CADRE RÉGULÉTOIRE', 'LA PRÉVISION DE L'ÉTAT', and 'LES FONDS DE DÉPÔTS'. The main content area features a 'COMMUNIQUÉS 2008' section with a dropdown menu set to 'COMMUNIQUÉS 2007'. A prominent headline reads '62 juin 08 - ÉMISSION DE L'ATF - 4 294 MILLIARDS D'EUROS D'OAT'. Below this, there are two detailed sections for OAT auctions:

- OAT 3.50% 25 avril 2011:**
 - Volume demandé: 6,299 milliards d'euros
 - Volume édité: 2,469 milliards d'euros
 - Échec: 142,47%
 - Pourcentage édité au prix limite: 93%
 - Taux de rendement (volume demandé - volume édité): 2,81
 - Taux moyen pondéré: 3,25%
 - Échec moyen pondéré: 112,37%
 - Date de rachat: 27/06/2015
- OAT 4.75% 25 avril 2011:**
 - Volume demandé: 3,095 milliards d'euros
 - Volume édité: 1,048 milliards d'euros
 - Échec: 116,47%
 - Pourcentage édité au prix limite: 103%
 - Taux de rendement (volume demandé - volume édité): 1,38
 - Taux moyen pondéré: 3,81%
 - Échec moyen pondéré: 118,97%
 - Date de rachat: 27/06/2015

- the Euronext website:
<http://oatparticuliers.euronext.com>
- Newspapers: several daily or weekly titles carry a list of the main OAT lines.

What does accrued interest mean?

Accrued interest is the coupon value attached *pro rata temporis* to a bond or OAT on a given day. Indeed, an investor who purchases but then resells an OAT before the latter has paid its annual coupon does not receive any interest from the issuer. Nevertheless, he must be remunerated for owning a bond instrument for part of the year.

This remuneration is guaranteed by virtue of accrued interest. Accrued interest represents the interest owed on the period that has elapsed since the date of the latest coupon paid or, if no coupon has yet been paid, since the date of first entitlement to interest payments*.

An investor who sells an OAT receives accrued interest from the purchaser at the settlement date; this settlement date is three days after the transaction date; the seller thus receives, from the purchaser, the amount of interest accrued since the latest coupon paid (or the date of first entitlement to interest payments) calculated at the settlement date: he is therefore not penalised for selling an OAT before the next payment or “detachment” of his coupon.

Taking a concrete example the OAT 4% 25 October 2014, with a settlement date of 30 May 2005

- the number of days that have elapsed since the last coupon (i.e. 25 October 2004) is 217 days;
- the exact number of days between the previous coupon and the next one is 365 days;
- the accrued interest thus amounts to:
 $4\% \times (217/365) = 2.378\%$

→ For further information, please consult the www.aft.gouv.fr website

How do you read OAT listings?

→ Listing principle

OATs are bonds. Their listing method works like bonds and not like stocks and shares listings.

OATs are thus listed as a percentage of the face value, excluding accrued interest.

Example of listing

On 12 September 2005, the OAT 4% 25 April 2013 is offered at 107.48% (excluding accrued interest of 1.556%). This means that an investor who wishes to purchase 1,000 bonds will have to pay:

$$1,000 \times (107.48\% + 1.556\%)$$

Listing taken from the www.euronext.fr website

MARKET SUMMARY					
OAT 4 % 03-13					
Bond type: Government Borrowing Bonds / Coupon % rate: 4.00					
Repayment date: 25/04/13					
Codes and classification					12/09/05 14:04 CET
ISIN	FR0000188989	Mnemo	ETADT	PEM	PAR
Market	Bond - Government Borrowing Bonds - Continuous Eurolist by Euronext				
Bid/Offer		12/09/05 15:03 CET			
Buy (%)	107.44				
Sell (%)	107.48				
Listing		12/09/05 14:04 CET			
Latest (%)	107.61				
Accrued interest %	1.556				
Volume	8.914				
Capital	9.596				
Day					
First (%)	09:00	107.69			
Up (%)	09:00	107.69			
Down (%)	14:04	107.61			

→ The face value

The face value corresponds to the amount of capital that is remunerated at the coupon rate.

This is the amount that will be repaid at maturity i.e. €1 per bond.

→ **ISIN code**

This is the identification number for transferable securities which meets international standards.

→ **Prices**

Bonds are not listed in euros, like stocks and shares, but as a percentage excluding accrued interest. To obtain the price of a bond (OAT), you have to multiply the face value by the price expressed as a percentage, plus accrued interest expressed as a percentage.

→ **Accrued interest**

Accrued interest represents the part of the coupon owed at time T (see p.17).

→ **Coupon**

The coupon is equal to the rate indicated in the bond's name multiplied by the face value.

→ **Redemption** (or repayment or maturity) **date**

This is the date on which the State will repay, to the OAT holder, the amount of the face value, i.e. €1 per bond; on this date the State also pays the amount of the final annual coupon.

→ **Settlement date**

As with most transferable securities listed in Europe, settlement for the purchase or sale of an OAT is made 3 stock exchange trading days after the transaction.

It is the interest accrued at the settlement date, and not on the transaction date, which is taken into consideration for the purpose of calculating the OAT price; likewise, in the case of OAT_i and OAT€_i, it is the indexation coefficient at the settlement date that is applied.

How do you calculate the price paid/received when buying/selling a OAT?

→ For a fixed-rate OAT

Let's take the example of 1,000 OAT 4% October 2014 exchanged on 25 May 2005 with a listing on that day of 101.30 and a settlement date of 30 May 2005:

- Nominal: $N = \text{€}1,000$ (1,000 x €1 bonds)
- Listing: $L = 101.30\%$
- Accrued interest* at the settlement date (see p.17):
 $AI = (4\% \times 217/365) = 2.378\%$

The price paid by the purchaser and received by the seller amounts to:

- $N \times (L + AI)$ i.e. €1036.78

Payment is made on the settlement date, i.e. on 30 May 2005.

→ For an inflation-indexed OAT

Take the example of 1,000 OAT_i 3% July 2009, listed at 109.72% on 25 May 2005, with a settlement date of 30 May 2005:

- Nominal: $N = \text{€}1,000$ (1,000 x €1 bonds)
- Listing: $L = 109.72\%$
- Accrued interest at the settlement date (excluding indexation):
 $AI = 2.540\%$
- Indexation coefficient: $IC = 1.10662$

The price paid by the purchaser and received by the seller amounts to:

- $N \times (L+AI) \times CI$ i.e. €1 242.29

Payment is made on the date of 30 May 2005.

→ For a capitalisation OAT

Let's take the example of 1,000 certificates of principal 25 April 2013 listed at 78.22% on 17 June 2005:

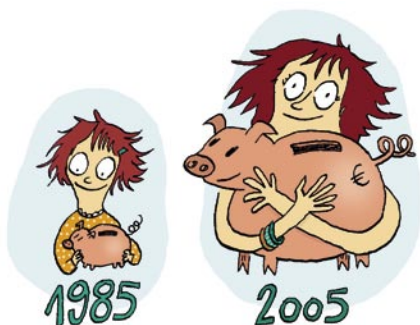
- Nominal: $N = \text{€}1,000$ (1,000 x €1 bonds)
- Listing $L = 78.22\%$

The price paid by the purchaser and received by the seller amounts to:

- $N \times L$ i.e. €782.20

Note: these calculations relate to the transaction price and do not take account of any transaction costs applicable under the terms and conditions applied by financial intermediary establishments.

How do you calculate the yield on an OAT?



The nominal value of an OAT at the time of issue is always €1 and it is always repaid at par, i.e. at the rate of €1 at maturity.

Once it is issued, the price of the OAT will vary, as it follows the changes in the interest-rate market, but according to a mechanism that is always identical:

When interest rates fall, the OAT price rises.

When interest rates rise, the OAT price comes down.

The explanation is as follows: when interest rates fall, the OAT's coupon becomes more attractive in comparison, so its price rises. When interest rates rise, the opposite happens.

Let's assume that an investor has acquired 10,000 OAT 4% 25 October 2014 at a unit price of €1. This OAT carries a coupon* of 4%; this coupon reflects the level of interest rates at the time of issue.

If rates have fallen since this acquisition and reached, for example, 3.45% on 25 October 2005, the price of the OAT 4% at this date will have risen, and on the secondary market, it will be worth €1,0416, i.e. 104.16% for each OAT.

On the other hand, if rates have risen to 4.54%, the OAT price on the secondary market will have fallen, and it will be €0.9604 i.e. 96.04% for each OAT.

How do you calculate the yield on an OAT? (cont'd)

The coupon paid to the investor is unchanged, i.e. 4% or €400 at the coupon payment date.

The price of 104.16% corresponds to the price of €10,416 payable to ensure the flow of €400 coupons through to the maturity date of 25 October 2014 under the new interest-rate conditions.

At any time, the investor may decide:

- **either to sell his securities before the maturity date.**

Thus, in our example, on 25 October 2005, he will receive the current market price, i.e. €10,416, realising a capital gain;

- **or to hold onto his securities until their maturity**

receiving €400 every year for 9 years and, at the end, in 9 years time, in 2014, the principal of 10,000€.

Reciprocally, an investor who purchases 10,000 OAT 4% 25 October 2014 on 25 October 2005, on the secondary market, for the sum of €10,416, will receive annual interest of €400 for future years plus repayment of the principal of €10,000. Nevertheless, taking into account the acquisition price, the return on his investment is 3.45%, i.e. the market rate.

The 4% coupon paid to the investor is thus different from the actual yield on the investment, taking into account the acquisition price.

The sensitivity of a bond to changes in interest rates increases, the further ahead its maturity date lies.

A capitalisation OAT is more sensitive than a fixed-rate OAT with the same maturity date.

→ **A calculation simulator is available on the AFT's website at: www.aft.gouv.fr.**

Understanding indexed OATs

The indexation coefficient calculated by Agency France Trésor is available on its website. It depends on each indexed OAT and varies each day. For each OAT i or OAT€ i , it represents cumulative inflation since the settlement date of the first issue of this OAT i .

Let's assume that an OAT i is issued on 1 January 2000, and that inflation is constant and equal to 1.8% per year; the indexation coefficient on 1 January 2005 will be:

$$(1 + 0.018)^5 = 1.09330.$$

Taking a concrete example **The latest coupon paid by the OAT i 3% 25 July 2009**

On 25 July 2005, the indexation coefficient for this OAT i was 1.10984.

An investor who owned 10,000 x €1 bonds on 25 July 2004 received a coupon of:
 $3\% \times 10,000 \times 1.10984 = \text{€}332.95$.

The usual formula is:

OAT i coupon = 3% x face value x indexation coefficient

The principal is repaid at the face value of €1 multiplied by the indexation coefficient at the maturity date, with a minimum guaranteed by the State at €1.

This minimum constitutes a hedge for the OAT holder against deflation, i.e. a fall in prices, between the issue date and the maturity date.

For further details concerning inflation-indexed OATs (calculating indexation coefficients, rounding rules, calculating accrued interest*, etc.), **please refer to the “Guide for investors in OAT i and OAT€ i ” documentation on the www.aft.gouv.fr website.**

What is the yield curve?

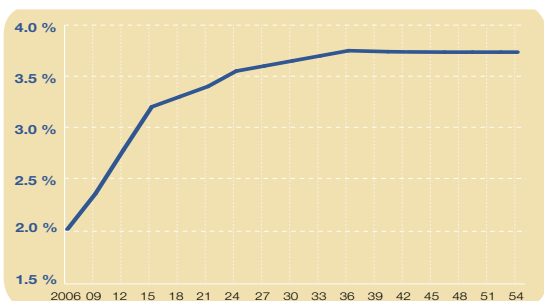
→ Principle

As a creditor, the bond holder demands that the remuneration paid on his investment depends on the term of his undertaking and of his anticipations in terms of variations in interest rates. A hierarchy of rates is thus created in line with maturities.

This hierarchy is known as the yield curve.

Investors demand higher rates for tying up their money for a longer period. This phenomenon is more marked if they are expecting a rise in interest rates in the future, the effect of which would be to reduce the value of the money they have invested. This explains why the yield curve is usually “sloping”, i.e. ascending in line with maturities. Nevertheless, where a fall in future interest rates is anticipated, the yield curve may turn round and produce short-term rates that are higher than long-term rates.

Yield curve based on State bonds at 9 June 2005



This graphic shows, for each repayment date (horizontal axis), the annual yield of each instrument (vertical axis) prior to safe custody charges, taxation, etc.

There is also a hierarchy of rates in line with the counterparty risk, i.e. the non-repayment risk represented by the borrower. This hierarchy ranges from the rates applicable to the State, which is the safest issuer, to the highest rate for the riskiest issuers.

What is an actuarial rate?

→ **The actuarial rate of a bond enables** the investor to answer the following question: how can you calculate the price of a bond today, knowing the redemption value, the rate at which coupons will be reinvested and the maturity.

→ **The actuarial rate is the only reference tool** that enables bonds to be compared with one another at a given moment.

→ Principle

An actuarial rate after payment of an instalment due is calculated thus:

$$C = \sum_{p=1}^n \text{Coupon}^* (1 + r)^{-p} + 1^* (1 + r)^{-n}$$

where C: the bond's list price

Coupon: the coupon paid annually

r: the actuarial rate

n: the bond's repayment date (maturity)

Taking a concrete example

For the OAT 4% April 2009, on 25 April 2005 the bond on the secondary market was worth: 104.95%

The actuarial rate (r) at 25 April 2005 after detaching the coupon is determined by resolving the following equation:

$$104.95 = \frac{4}{(1+r)} + \frac{4}{(1+r)^2} + \frac{4}{(1+r)^3} + \frac{4}{(1+r)^4} + \frac{100}{(1+r)^4}$$

which gives: r = 2.68%

It can be seen that the longer the investment period of the initial capital, the more sensitive the "snowball" effect linked to the composition of interest will be. This theoretical calculation is made by assuming that any intermediate coupons are reinvested each year at the initial interest rate.

What tax treatment applies to OAT?

1 On the coupon detachment date

The bond owner is liable to income tax on a sliding scale or, optionally, a standard deduction at source of 16% on the full amount of the interest attached to this coupon plus 11% Social Security contributions, i.e. 27% in total.

2 Where a bond is disposed of

The seller is taxed on the capital gain on disposal at the rate of 16% + 11% Social Security contributions, i.e. 27%. A capital gain arises where the disposal price is higher than the acquisition price. The disposal price includes the value of the coupon, where the bond is disposed of with the “coupon attached”.

3 At the time the bond is repaid

The bond owner is liable to income tax on a sliding scale or, optionally, a standard deduction at source of 16% + 11% Social Security contributions, up to the value of the redemption premium. The latter is taken to mean the difference between the bond's redemption value and its acquisition price.

4 “Zero coupon” bonds

Interest is paid at the end at the time of repayment and is included in the bond's redemption value. The taxable remuneration is made up of the difference between the bond's redemption value and its acquisition price.

In the event of disposal prior to repayment, in principle, the disposal price includes the amount of interest accrued since the bond was acquired. The seller is taxed on the capital gain on disposal.

5 Inflation-indexed bonds

The tax treatment of inflation-indexed bonds is identical to that provided for fixed-rate or variable-rate bonds, i.e.:

- annual application of income tax on a sliding scale or, optionally, a standard deduction at source of 16% + 11% Social Security contributions, up to the value of the “interest” coupon actually received;
- if the bond is disposed of (see situation No. 2);
- taxation on repayment up to the value of the redemption premium (see situation No. 3), which includes the premium due to indexation to inflation, to income tax on a sliding scale or, optionally, a standard deduction at source of 16% + 11% Social Security contributions.

→ **Capital gains on disposals of transferable securities are only taxable if the annual disposals, all securities included, exceed a ceiling set by the tax legislation (amount in force for 2005: €15,000).**

→ **The rate schedules indicated are those applicable in 2005.**

Handy answers



A glossary for
retail investors

→ **Bullet redemption**

The usual practice on the French market, bullet redemption (at the end) involves repayment of the full amount borrowed in one lump sum, on the maturity date.

→ **Assimilation**

Assimilation is the technique used by AFT, and by other borrowers on the bond market, which enables securities issued on a staggered basis to be grouped together into a single borrowing or line (or the same “counterfoil”).

→ **Coupon**

The coupon is the interest paid to the bearer of a bond. The coupon paid on OATs is annual and is a fixed percentage of the face value (which is index-linked in the cases of OAT_{*i*} and OAT€_{*i*}).

→ **Accrued interest**

Accrued interest represents a fraction of the annual coupon proportionate to the term that has elapsed since payment of the previous coupon or, if the first coupon has not yet been paid, since the date of first entitlement to interest payments. It is usually published with the bond price. At the moment of the transaction, the seller receives the bond price and the accrued interest.

→ **Date of first entitlement to interest payments**

Date on which interest on a bond starts to accrue. The dates of first entitlement to interest payments on bonds issued by the State are made public by a statement issued by AFT prior to each issue.

→ **Coupon detachment**

Payment by the issuer of the periodic interest owed to the bond bearer. On the day the coupon is detached, the bond is said to be “cum coupon”.

→ **Maturity date**

Date on which the debtor (the State) repays the creditor (here, the OAT owner) for his loan.

→ **Secondary market**

Market on which instruments already issued are exchanged. In contrast, the primary market is that constituted by purchases of securities at the time of issue.

→ **Face value**

The face value of a bond is that to which the nominal interest rate is applied in order to determine the annual coupon. The face value of an OAT is €1.

→ **Principal**

What the borrower has to repay to the lender in order to extinguish his debt. In the case of OATs, this is a synonym of nominal.

→ **Actuarial rate**

This is the rate that provides us with the current price of a bond by updating all the future financial flows attached to it, i.e. repayments of the principal and payment of annual coupons (i.e. the updated value of future flows).

→ **Nominal or face-value interest rate**

This is the interest rate that applies to the bond's face, which is stated in the instrument's issue contract.

→ **Real interest rate**

The value of interest calculated on the basis of the nominal rate and that of repayment of a bond are gradually eroded by inflation. We therefore calculate the real interest rate by correcting the nominal interest rate for the effects of inflation. In concrete terms, when the inflation rate is relatively low, we may make do, by approximation, with subtracting the inflation rate from the nominal interest rate in order to obtain the real rate. The correct mathematical formula, which is more complex, gives a very similar result provided that inflation is low.

→ **Market-maker**

His role is to guarantee a “sufficient” level of liquidity on a security.

He constantly displays buy/sell prices for a minimum quantity on a given list of instruments.

And how, may I ask,
do I obtain further
information?



**For full information, please consult the
www.aft.gouv.fr website**

Warning: this documentation has been prepared by AFT to provide information on how the OAT market works. It does not constitute a prospectus requiring the approval of the Autorité des Marchés Financiers and has not been examined by this body. European Union members states are not subject to any obligation to prepare a prospectus covering the securities that they offer to the public; the latter has all the information it needs regarding the economic and financial situation, which the issuing state submits at least once a year to Parliament at the time it votes on the finance bill.

This documentation is available and is constantly being updated on the website of the French Finance Ministry at www.minefi.gouv.fr.

