

INTERNATIONAL FINANCIAL MARKETS AND INSTRUMENTS

This summaries 'International Financial Markets' Module 1 (Additional Reading)

(1) MONEY MARKETS

- (1) **Primary Money Market** [maturities of less than 1 year] (2)
- (i) **CDs**
 - (ii) **TBs** (a) **Bank of England**
 - (iii) **CP** (b) **Discount Houses** (i) **Investment Banks**
 - (iv) **BAs** (c) **Clearing Banks** (ii) **Commercial Banks**
 - (v) **Bank Deposits** (iii) **Complex Groups/ Conglomerates**
- (2) **Secondary Money Markets**
- (a) **Local Authority Market**
 - (b) **Finance House Market**
 - (e) **Sterling Inter-Bank Market** *Eurodollar Market*
 - (c) **Inter Company Market**
 - (d) **Sterling Certificate of Deposit Market**
 - (e) **Sterling Commercial Paper Market**

GILT MARKETS [GOVERNMENT DEBT MARKETS]

- (i) **Consols 1752** [US T Bills <1, Notes 1-10 and Bonds >10 years]
- (ii) **War Loans** (a) **Government Gilts** *UK CGO CREST [GEMMs/IDBs/SEMBS]* (3)
- (iii) **DD Stock** (b) **Treasury Bills**
- (iv) **Convertible** (c) **Sale and Repurchase Agreements (Repos)**
- (v) **T Bills**

BANKING MARKETS

Syndicated Loan Market *Euroloan Market [Inter-bank Market]*

- DEPOSIT TAKING AND LOAN MARKET** *Commercial Bank Market*
- (a) **Corporate Loans** (d) **Commercial Property**
 - (b) **Consumer Credit** (d) **Residential Mortgages**
 - (e) **Trade Finance**
 - (a) **Subsidiary** **Credit Transfers** (a) **Assignment**
 - (b) **Branch** (b) **Novation**
 - (c) **Joint Venture** (c) **Participation**
 - (d) **Consortia** (d) **Risk Participation**
 - (e) **Representative Office** (e) **Securitisation** (5)

- KEY TRENDS**
- (1) **MARKET INTEGRATION (CROSS-BORDER AND SECTOR)**
 - (2) **GENERAL 'DISINTERMEDIATION' (COMMERICAL PAPER) AND 'SECURITISATION' (LOANS TO BONDS)**
 - (3) **'REPACKAGING' AND 'STRUCTURED FINANCE'**
- SEPARATION**
- (4) **'PRIVITISATION' AND 'DECONSTRUCTION' OF RISK**
 - (5) **COMPLEX RISK MANAGEMENT, STANDARD DOCUMENTATION AND EXTENDED MARKET SUPPORT**

CAPITAL MARKETS

G A WALKER

- SECURITIES AND CAPITAL MARKETS**
- (a) **Debt** (a) **FRNs** *71 10-20 years*
 - (b) **Equity** (b) **NIFs** *5-7 years >70s*
 - (c) **Warrants and Hybrids** (c) **MTNs** *85 9mth-15 year*
 - (d) **Depository Receipts** (d) **MOF[MOFF/MLF/BONUS]**
 - (e) **Eurodollar** (i) **Bonds** (Duration Ladder)
 - (ii) **Notes**
 - (disintermediation) (iii) **Commercial Paper**
 - (iv) **'Convertibles' and 'Callables'**
 - (v) **Structured Finance**
 - (i) **Repackaging [synthetic]**
 - (ii) **CMOs/ABSs/MBSs**
 - 'CDOs' (iii) **CBOs/CLOs/CEOs**
 - (iv) **CLNs**
 - (v) **SIVs/Conduits**

FINANCIAL DERIVATIVES MARKETS

- (i) **TRSSs** (i) **Risk Cover/Hedging**
- (ii) **CSSs** (ii) **Trading/Speculation**
- (iii) **CDSs**
- (a) **Swaps**
- (b) **Futures** (I) **Financial Contracts**
- (c) **Options** (ii) **Indices**
- (d) **Credit Derivatives** (iii) **Oil and Gas**
- (e) **Hybrids** (iv) **Energy**
- (v) **Commodities**

ALTERNATIVE INVESTMENT MARKETS <http://www.riskglossary.com>

- (a) **Hedge Funds** (a) **Pension Funds**
- (b) **Private Equity** (b) **Collective Investment**
- (c) **Sovereign Wealth Funds** (c) **US Mutual Funds**

CURRENCY MARKETS

- (a) **Spot**
- (b) **Forward**

GOLD MARKET *London Gold Fixing*

- INSURANCE MARKETS**
- (a) **Life** [Assurance]
 - (b) **Non-life** [Contingent Liability]

COMMODITY MARKETS **Auction Rooms** **G A WALKER**

INTERNATIONAL LOAN FINANCE

EURO LOAN MARKET – HISTORICAL DEVELOPMENT

- LOAN STRUCTURES** (1) *Principal Amount*
 1. *Lenders* (2) *Term Duration*
 2. *Borrowers* (3) *Drawdown Tranches*
 3. *Term Loan* (4) *Interest Fixed/Float*
 (5) *Repayment Bullet Obligations*

- AGENT BANK** *Agent Lenders* (a) *Partnership* (b) *Security* (c) *Dealing/Arranging* (d) *US SE/SEA Notes* (e) *Consumer Credit*

- LOAN FACILITIES** (1) *London* MRCF/SBF (3) *New York* (4) *Tokyo* (5) *Frankfurt* (6) *Shanghai* (7)

- Euro Loans [participated]
 Multi-Purpose Facilities [MOFFs]
 Term / Revolving Facilities [RCF]
 Credit Lines
 Title Finance
 Project Finance
 Property Finance
 Acquisition Finance (i) *Senior*
 Securitisation (ii) *Mezzanine*
 Subordinated Debt (iii) *Junior*

BORROWER [AND BORROWER'S GROUP]

- ARRANGING OR LEAD BANK**
 (a) *Prepare Information Memorandum*
 (b) *Solicit Participation*

- SYNDICATE LENDERS** (c) *Negotiate Doc* (1) *Severality* (2) *Proportionality* (3) *Equality* (4) *Democracy* (5) *Limited Agency Function*

- ISSUE PROCEDURE** (1) *'Mandate Letter'*
 (a) *Approach* (2) *'Term Sheet'*
 (b) *Fee Letter/Quote* (3) *'Information Memorandum'*
 (c) *Award Mandate* (4) *Procedure Subject to Contract*
 (d) *Solicit Interest* (5) *Fees*
 (e) *Instruct Solicitor to Draft Docs*

- SYNDICATION PRINCIPLES** (1) *Severality* (2) *Proportionality* (3) *Equality* (4) *Democracy* (5) *Limited Agency Function*

- LIABILITY** (1) *Theft* (2) *Fraud* (3) *Negligent* (4) *Innocent* (5) *Regulation*

- LIMITATION** (1) *Legal at CL* (2) *Nec Express* (3) *Construction / 'CP'* (4) *Oral Warranty/Repug* (5) *Exclusions*

BORROWER GROUP COMPANIES

- GUARANTOR [S]**
 (i) *Publication [Tombstone]*
 (j) *Transfers*

- (a) *Receipt Duties*
 (b) *Payment Duties*
 (c) *Banking Duties*
 (d) *Notification Duties*
 (e) *Default Duties*

- DEFAULT EFFECTS** (a) *Limited Role* (b) *Gen Immunity* (c) *Specific Imm* (d) *Fiduciary* (e) *Loss*

- (f) *Comment, Negotiate and Finalise*
 (g) *Conditions Precedent Docs*
 (h) *Signing*

LOAN CONDITIONS AND OBLIGATIONS

- LOAN DEFAULT - EVENTS DEFAULT**
 (a) *Non-Payment*
 (b) *Financial Covenants*
 (c) *Non-financial Breach*
 (d) *Misrepresentation*
 (e) *Cross-Default*
 (f) *Insolvency*

- SYNDICATION** (a) *Credit Risk* (b) *Capital Charge* (c) *Large Exposure* (d) *Liquidity / Funding* (e) *Diversification* (f) *Reputation*

- (g) *Business Expansion*
 (h) *Country Expansion*
 (i) *Improved Terms*
 (j) *Fee Income LB 0.5%/Commit 0.75%*

- (1) **Conditions Precedent** *Pre-Advance*
 (a) *Constitutional Documentation*
 (b) *Sovereign Confirmations*
 (c) *Security*
 (d) *Legal Opinions*
 (e) *Confirmations or other Evidence*
 (f) *Conditions Subsequent*

- (a) *Legal Warranties*
 (b) *Financial or Commercial*

- (g) *Creditor Processes*
 (h) *Control*
 (i) *Illegality*
 (j) *Repudiation*

- CONTROLS** (1) *Fraudulent Misrep* (2) *Criminal Activity* (3) *Statutory Liability* (4) *UCTA 77 / EU Regs* (5) *Misrep Act*

- (2) **Representations and Warranties**
 (3) **Covenants** *Fact / Undertaking or Promise*
 (a) *Corporate Covenants*
 (b) *Financial Covenants*
 (c) *Information*
 (d) *General Undertakings*

- LOAN TRANSFERS** (a) *Assignment* (b) *Novation* (c) *Participation* (d) *Risk Participation* (e) *Securitisation*

- (i) *Material Adverse Change [MAC]*

R&W only damages & not rescission
Only if express condition or default

s 136 LPA 1925

- LOAN RESTRUCTURING** (a) *Rescheduling* (b) *Paris/London 1956/1976* (c) *IMF/WB HIPC/CACs*

EUROLOAN & EUROBOND LAW

STRUCTURAL SUMMARY

INTERNATIONAL SYNDICATED LOAN (EUROLOAN)

INTERNATIONAL BOND OFFERING (EUROBOND)

Lead or Arranging Bank

Intermediaries (Fees)

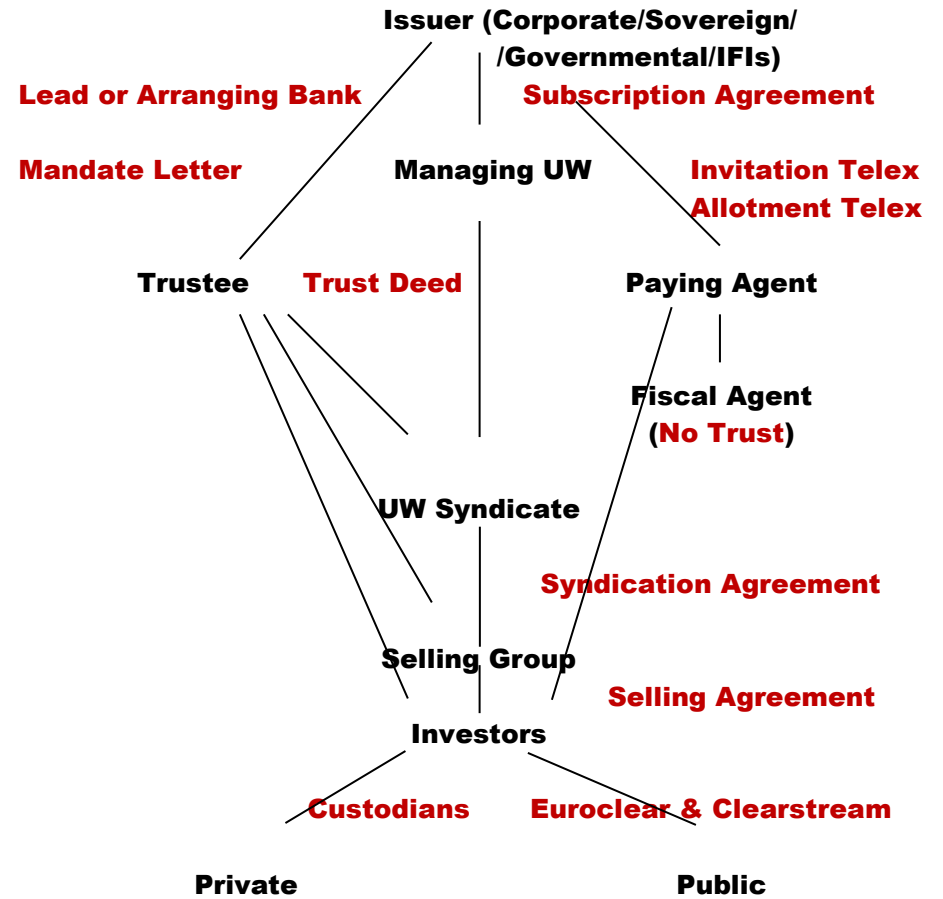
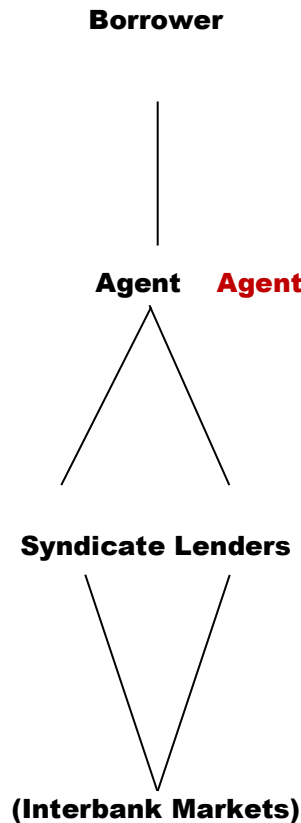
- (1) **Mandate Letter**
- (2) **Information Memorandum**
- (3) **Loan Agreement [Multiple Draw Down]**

Credit Providers/Investors

10 cos 10 syn A/B facilities = 100 / 200 loans but JointS

12 draw downs A 1/2 years = 120/240(1,200/2,400)+10 B

20 year drawdown on B = A 240 (2,400) + B 2,400 (24,000) = 2,640 (26,4000) total governed by single Loan Agreement



Loan Finance

**EUROBOND ISSUE
TIME LINE**

PROF G A WALKER

Beginning of 'Grey Market' until Closing

MARKETING

D DAY - 7

D DAY

D-DAY +14

D-DAY+21

PRE-LAUNCH

Initial Client Request or Approach

Mandate Letter and Due Diligence

LAUNCH AND SYNDICATION
Public Announcement
Invitation and Allotment Telex or Fax

SIGNING

Subscription Agreement
Legal Commitment

CLOSING
1 week after signing SA

(1) Private Placement
Managers subscribe whole issue and place directly.

Key terms except Coupon and Price (Par, Discount or Premium)

Manager's Agreement

Agency Agreement (Fiscal or Paying Agent)

(2) Preliminary Prospectus Offering
Use '**Red Herring**' or '**Pathfinder**' Prospectus to test market with subsequent public offering.

Preliminary Offering Circular

Offering Circular

Underwriting Agreement

Conditions Precedent

(3) Impact Day Offerings *UK Domestic*
Managers fix issue terms and announce offering by public advertisement on impact day.

Subject to Contract
Pagman Spa V Feed Products Ltd
[1987] 2 Lloyds Rep 601

Signing Auditor's Comfort Letter

Closing Letter

Trust Deed

'Bought Deals'

No preliminary prospectus with managers buy themselves and on-sell. Possibly announce to market on dealers screen at time terms fixed with invitational telexes follow. Managers place issue with clients and other dealers.

[Guarantees]

Listing

Payment

Structures -

- (1) Immobilisation**
- (2) Dematerialisation**
- (3) Disintermediation**
- (4) Demutualisation**
- (5) Consolidation**

Instruments -

- (1) Short Dated**
- (2) Bearer (Anonymous)**
- (3) Unsecured (6) Listed or Unlisted**
- (4) Negotiable (7) Committed or Uncommitted**
- (5) Withholding Tax Free (8) Promissory Notes**

[Common Depositary]

Tax Equity and Fiscal Responsibility Act of 1982 [TEFRA]

Global Bonds TGB

[40 Day Lockdown]

Delivery global and final bonds

Closing Certificate

INTERNATIONAL BOND FINANCE

PROF G A WALKER

EURO BOND MARKET – HISTORICAL DEVELOPMENT		TRUSTEE	CUSTODIAN	BOND OPTIONS	(1) Euro Bonds Plain Vanilla /Variable
		PAYING AGENT		(2) Floating Rate Notes (NTFs)	
BOND STRUCTURES	(1) Principal Amount	FISCAL AGENT		(3) Note Issuance Facility (NIFs)	
1. Loans & Bonds	(2) Term Duration		BOND STRUCTURES	(4) Medium Term Notes (MTNs)	
2. Structures	(3) Interest Fixed/Float	(1) <i>Private Placement</i>	(a) Issue/Sale Formality	(5) Euronotes	
3. Issue Procedure	[Drawdown 'Taps']	(2) <i>Prelim Prospectus</i>	(b) Doc Complexity	(6) Perpetuals	
4. Special Issues	(4) Repayment	(3) <i>Impact Day Offering</i>	(c) Transferability	(7) Warrants	
5. Form & Comment	(5) Obligations		(d) Credit Control	(8) Convertibles	
ISSUER [ISSUER'S GROUP]		ARRANGING BANK	(e) Default/Recovery	(9) Equity Linked	
	<i>Mandate Letter</i>	(a) <i>Appoint Parties</i>	PUBLIC INVESTORS	(10) Eurocommercial Paper (ECP)	
ISSUE PROCEDURE	DOCUMENTATION	(b) <i>Draft Documentation</i>	PRIVATE INVESTORS	(11) Certificates of Deposit (CDs)	
(1) Mandate	(1) Prospectus of Offering Circular	(c) <i>Negotiate Doc</i>	(12) Multi-Purpose Facilities [MOFFs]		
(2) Launch * Telex	(2) Subscription Agreement	<i>Issuer</i>			
(3) Documentation	(3) Underwriting Agreement	<i>Issuer & Managers</i>	MARKET TRENDS	MULTI-OPTION FUNDING FACILITY	
(4) Final Terms	(4) Selling Agreements	<i>Managers & Under</i>	(1) Immobilisation	(1) Short-term Multi Advance	
(5) Signing 7/14 Days	(5) Managers' Agreement	SELLING GROUP	(2) Dematerialisation	(2) Medium Term Notes (MTN)	
(6) Stabilisation	(6) Trust Deed	UW SYNDICATE	(3) Disintermediation	(3) Euro & Dom Commercial Paper	
(7) Allotment IPMA	(7) Fiscal/Agency Agreement		(4) Demutualisation	(4) Banker's Acceptances	
(8) Trust Deed	(8) Global Bond (TGB)		(5) Consolidation	(5) Swingline Facility	
(9) Listing Market/Trading/Liquidity	620 members 65 countries Swiss Verein				
(10) Closing TEFRA 1982	ICMA 2005 [AIBD / IPMA (1985) / ISMA]		PARTIES	<i>Euroclear (JP Morgan 1968) / Clearstream (Cedel 1970)</i>	
(11) Global Bond (TGB) 40	(a) Standards	(d) Regulatory Engage	(1) Issuer	INSTRUMENTS	
(12) Definitive Bonds	(b) Sust Finance	(e) Network	(2) Investors	(1) Short Dated	
	(c) Info & Dialogue	(f) Profession Standards	(3) Arranger	(2) Bearer (Anonymous)	
BOND STRUCTURES	(a) <i>Gilt-Edged Securities</i>		(4) Selling Group	(3) Unsecured	
	(b) <i>Local Authority Stocks</i>		(5) Underwriters	(4) Negotiable	
(1) UK Gilts, Stocks and Bonds	(c) <i>Public Sector Board Bonds</i>		(6) Trustee	(5) Withholding Tax Free	
(2) US Treasury, Agency and Municipal Bonds	(a) <i>Registered/Bearer</i>		(7) Payment Agent /Trust	(6) Listed or Unlisted	
(a) <i>Treasuries</i>	(b) <i>Global/Permanent</i>		(8) Fiscal Agent /	(7) Committed or Uncommitted	
(b) <i>US Federal Agency Securities</i>	(c) <i>Immobilised/Custody</i>		(9) Guarantor (<i>Calculation, Transfer or Exchange Agent</i>)	(8) Promissory Notes	
(c) <i>Municipal Bonds</i>	(d) <i>Dematerialised</i>		(10) Euroclear		
(3) Japanese Government Bonds and Debentures	(c) <i>Exchange/OTC</i>		(11) Clearstream	NEGOTIATION	
(4) German Government Bonds and Debentures			(12) Sub-Custodians	(1) Stabilisation	
(5) Other Government Securities			(13) Lawyers	(2) Listing	
(6) Corporate Bonds	(a) <i>UK Debentures and Loan Stock</i>		(14) Accountants/Audit	(3) Negotiability	
(7) Foreign Bonds	(b) <i>US Corporate Bonds</i>		(15) Tax Experts	(4) Clearing Systems	
(8) Bond Variants	(c) <i>Japanese Bond Market 'Samurais'</i>			(5) Governing Law	

Loan Finance

HISTORICAL	1300s	EURONOTE & CP (<1 year)	BOND YIELDS (Return on Bond or Coupon Payments over Life Bond)	INVESTOPEDIA
(1) <i>Monte Commune</i> Florence	(1) Underwritten / Discount	(1) Coupon Rate	<i>Annual Coupon / Face Value</i>	
(2) <i>Annuities Habsburgs Neth</i>	(2) Issue Days / Hours	(2) Current Yield	<i>Annual Coupon / Bond Price</i>	
(3) <i>Shares East India 1609</i>	(3) Maturities Fixed 7/365	(3) Yield to Maturity (YTM)	<i>Future Cash Flows</i>	<i>Price = Discounted Cash Flow</i>
(4) <i>3% Ann 1726 / Consols 1751</i>	(4) Settle 7 / Same Day	(4) Bond Equivalent Yield (BEY)	<i>Half YTM (6 months)</i>	<i>Yield to Maturity</i>
(5) <i>Eurobonds Auto 1 7 1963</i>	(5) £500,000 / £100,000	(5) Effective Annual Yield (EAY)	<i>Total Profit or Return (including Compound Returns)</i>	
<i>Aberdeen Harbour 1136 King David I of Scotland</i>				
Autostrade 1 7 1963 (SG Warburg \$15m 5½% Guaranteed 1972/78) through Bondholder Reinvestment)				
ADVANTAGES	DISADVANTAGES	EUROBOND VARIATIONS	FRN VARIATIONS	
(1) Transferability <i>Negotiable</i>	(1) Cost	(1) Zero Coupon Bonds	(1) Floor FRNs	(7) Step Down FRNs
(2) Anonymity <i>Bearer</i>	(2) Complexity	(2) Foreign Currency Bonds	(2) Drop Lock FRNs	(8) Step Up FRNs
(3) Flexibility Management	(3) Constraint but Choice	(3) Reverse Dual Currency	(3) Double Drop Lock FRNs	(9) Margin as a percentage FRN
(4) Liquidity	(4) Regulation & Taxation	(4) First Coupon on Partly Paid	(4) Cap FRNs	(10) Floating then Zero FRNs
(5) Disposability <i>Sell</i>	(5) Market Volatility	(5) Currency Change Bond	(5) Caller (Minimax) FRNs	(11) Fixed then Floating FRNs
		(6) Annuity Bonds	(6) Inverse FRNs	(12) Variable Rate Notes (VRNs)
				(13) Zero Coupon (or Deep Discount)
				(14) Rolling Rate Notes (RRNs)
				(15) Bunny (or Multiplier)
				(16) Lender's Option-Borrower's
				Option (LOBO)
				(17) Borrowers' Option-Lender's
				Option (BOLO)
				(18) Graduated Rate / Indexed
				Annual Accounts & Listing or Stock Exchange Docs
				(a) Fixed Rate <i>Annually in Arrears (End Redeem)</i>
				(b) Floating Rate Notes <i>Reference Agent Fix Rate (IBOR)</i>
				(c) Zero Coupon <i>Deep Discount (30%) (RFRate)</i>
				(d) Swaps <i>Possible Interest Swap</i>
				Bullet Instalments <i>Fixed Periodic Instalments / Drawing</i>
				Purchase Funds <i>Purchase Agent Buy</i>
				Only Redeemable on Default or Withholding Tax
				Sliding Premium (105% > ½%). Not Penalty. Select by Lot
				Issue Redeem if Withholding Tax (or Sig Increased Liability)
				No Restrictions. Dist Share Purchase. Poss Re-issue.
				Coupons. Choice if Exchange Control or Illegality
				Statutory or Contractual (Gen 5 or 10 Years)
				<i>Non-Payment, Non-Compliance, Cross-Default, Insolvency,</i>
				<i>Bankruptcy, Dissolution, Other Creditor's Processes & possibly Substantial Disposals</i>
(17) Acceleration (Consent)	BH Action unless Trustee	(17) Enforcement	No Restriction unless by Trustee (No-action clause & powers Tr)	
(18) Notices & Governing Law	Standard	(18) Governing Law	Same	PROF G A WALKER

OPERATIONAL LOAN & BOND PROVISIONS

- (1) Disclosure requirements Comply Registration Oblig
- (2) Documentation More Complex Documents
- (3) Advance of funds Single Advance (Tap Issue)
- (4) Currency Conversion Impracticable
- (5) Interest Fixed of Floating / No Penalty
- (6) Repayment Limited Bullet, Instal, Fund
- (7) Voluntary prepayment Excluded (Selection by Lot)
- (8) Margin protections No Increase Costs / Illegality
- (9) Payments & Equality Coupons & No Pro Rata (Agent of Issuer)
- (10) Warranties Subscription Agreement
- (11) Covenants Limited (Accts / Listing or SE)
- (12) Events of Default (MAC) Less Strict / Grace / No-action
- (13) Modifications Consent unless BH Meetings
- (14) Transfer (Assign / Nov) Fully Negotiable
- (15) Prescription Statutory Contractual Cancellation
- (16) Events of Default Generous
- (17) Acceleration (Consent) BH Action unless Trustee
- (18) Notices & Governing Law Standard

TERMS OF BONDS

- (1) Face of Bond /
- (2) Fiscal Agency or PA TD
- (3) Form & Transfer
- (4) Covenants
- (5) Pari Passu Clause
- (6) Negative Pledge
- (7) Information
- (8) Interest
- (9) Redemption Single Instalment
- (10) Perpetuals
- (11) Vol Redemption
- (12) Early Redemption
- (13) Purchase by Issuer
- (14) Payments
- (15) Prescription
- (16) Events of Default
- (17) Enforcement
- (18) Governing Law

Par/Premium/Discount

- Promise to Pay Bearer
- Express Incorporation
- Bearer / Pass Delivery / Full Negotiability
- Rare unless Trustee
- Unsecured & Pari Passu among Themselves
- Limit Comparable Securities
- Annual Accounts & Listing or Stock Exchange Docs
- (a) Fixed Rate *Annually in Arrears (End Redeem)*
- (b) Floating Rate Notes *Reference Agent Fix Rate (IBOR)*
- (c) Zero Coupon *Deep Discount (30%) (RFRate)*
- (d) Swaps *Possible Interest Swap*
- Bullet Instalments *Fixed Periodic Instalments / Drawing*
- Purchase Funds *Purchase Agent Buy*
- Only Redeemable on Default or Withholding Tax
- Sliding Premium (105% > ½%). Not Penalty. Select by Lot
- Issue Redeem if Withholding Tax (or Sig Increased Liability)
- No Restrictions. Dist Share Purchase. Poss Re-issue.
- Coupons. Choice if Exchange Control or Illegality
- Statutory or Contractual (Gen 5 or 10 Years)
- Non-Payment, Non-Compliance, Cross-Default, Insolvency,*
- Bankruptcy, Dissolution, Other Creditor's Processes & possibly Substantial Disposals*
- No Restriction unless by Trustee (No-action clause & powers Tr)
- Same