

# INTERNATIONAL BOND FINANCE



Prof G A Walker

# **INTERNATIONAL FINANCIAL LAW**

## **EUROBOND MARKET**

**Prof G A Walker**



**INTRODUCTION AND OUTLINE STRUCTURE**

**1. LOANS AND BONDS      Historical Development  
   Nature and Function**

**2. STRUCTURES, PARTIES AND DOCUMENTATION**

**3. ISSUE PROCEDURE**

**4. SPECIAL ISSUES AND TERMS**

**5. COMMENT AND CONCLUSIONS**



WY onderschreven Reecken-meesters vande Camere der Oost-Indische Compagnie binnen Middelburgh, Bekennen midts desen gheacordeert te hebben, ende by den Ontfangers der voorschreven Compagnie ontfanghen te wesen, vanden Eerfamen *Jacob van der Berg*

*Jhr. Sted*

de Somme van *Nidderhulstige* *Quier*  
Welcke voorschreven somme van

*Nidderhulstige* *Gies* metten Interesse van dien jegens *Jhr. Burgiart*  
ren hond. Int Jaer gherekent, wy aen voorn. *Burg van*

ofte den Thoonder deses, doorditto Ontfangers wederomme  
belooven te betalen over *Maenden* naer date deses. Sonder argh  
ofte liit. Actum in Middelburgh den *7. Novemb*

*by segghe* *de walle* *de gro* *de dater* *ingue* *de curio*

*2400*

*Jacob*

*Commissaris*

HM TREASURY



United Kingdom  
Debt Management  
Office





# Bank of England

<sup>56</sup><sub>N</sub> 33995 to pay the Bearer on <sup>56</sup><sub>N</sub> 33995  
the Sum of Fifty Pounds

1936 April 20 London 20 April 1936

**Fifty**

For the Gov<sup>r</sup> and Comp<sup>rs</sup> of the Bank of England.

<sup>56</sup><sub>N</sub> 33995

H. O. Peppiat  
Chief Cashier.



**Coupon:** This is the interest rate which is applied to the nominal value to determine the size of the yearly dividend. Generally, this is paid six-monthly.

**Name:** Name given when first issued

**Maturity:** The year when the holder receives the capital repayment

Security Code

08000103018

**6 1/2 PER CENT TREASURY STOCK, 2003**

677

Principal and interest charged on the National Loans Fund, with recourse to the Consolidated Fund of the United Kingdom.

Repayable at par on 7 December 2003.

Interest payable half-yearly on 7 June and 7 December.

HOLDING NUMBER

677-DAG9999

**£1000.00\*\*\***

CERTIFICATE NUMBER

01234567/01

MRS. AMELIA BROWN  
4 VICTORIA COURT WESTMINSTER LONDON SW1H 0NT

MR. ROBERT JOHNSON BROWN

**Nominal Amount:**  
This is the amount  
of the gilt.

**SPECIMEN**

**SPECIMEN**

THIS IS TO CERTIFY THAT THE ABOVE-NAMED IS/ARE THE REGISTERED HOLDER(S) OF  
ONE THOUSAND POUNDS 6 1/2 PER CENT TREASURY STOCK 2003  
28 MAY 1998

*A.P. Sparks*  
CHIEF REGISTRAR  
BANK OF ENGLAND

IMPORTANT: The Bank of England should be notified immediately of any change of address of the above-named stockholder(s).  
No transfer of the whole or any part of the holding represented by this Certificate will be registered until the Certificate has been delivered at the Bank of England,  
the Stock is transferable in multiples of 1p.





1 017 055 A

100,000

THE UNITED STATES OF AMERICA

100,000

TREASURY BILL



ON PRESENTATION OF THIS TREASURY BILL TO THE TREASURER OF THE UNITED STATES OR TO ANY FEDERAL RESERVE BANK THE UNITED STATES OF AMERICA WILL PAY TO THE BEARER

ONE HUNDRED THOUSAND DOLLARS

WITHOUT INTEREST ON THE DUE DATE HEREON SPECIFIED. THIS TREASURY BILL IS ISSUED UNDER AUTHORITY OF THE SECOND LIBERTY BOND ACT, AS AMENDED, IN ACCORDANCE WITH, AND SUBJECT TO, THE PROVISIONS OF TREASURY DEPARTMENT CIRCULAR NO. 418, REVISED, TO WHICH REFERENCE IS MADE FOR A STATEMENT OF THE RIGHTS OF HOLDERS, AS FULLY AND WITH THE SAME EFFECT AS THOUGH HEREIN SET FORTH. THIS TREASURY BILL IS ISSUED BY A FEDERAL RESERVE BANK OR BRANCH PURSUANT TO A TENDER ACCEPTED BY THE SECRETARY OF THE TREASURY. IT SHALL NOT BE VALID UNLESS THE ISSUE DATE AND THE MATURITY DATE ARE ENTERED

ISSUE DATE

OCTOBER 9, 1969

DUE AND PAYABLE

APRIL 9, 1970

TREASURY DEPARTMENT WASHINGTON

I HAVE TODAY EXAMINED THIS SECURITY AND VERIFIED ITS EXISTENCE AT THE REQUEST OF THE BUREAU OF THE PUBLIC DEBT, UNITED STATES TREASURY DEPARTMENT.

APRIL 20, 1971

W. G. Newman

(JULIA G. MATTHEW, SPECIAL AGENT, U.S. SECRET SERVICE)

David M. Kennedy, SECRETARY OF THE TREASURY





1000,000

1000,000

7 3/8%  
TREASURY BOND  
OF 2002-2007

Dated February 15, 1977  
Due February 15, 2007

COUPON SERIES NO. 3

Reference to CO 28 and other  
February 15, 1977  
SERIES NO. 4-77



1586F

# THE UNITED STATES OF AMERICA

FOR VALUE RECEIVED PROMISES TO PAY TO THE BEARER THE SUM OF  
**ONE MILLION DOLLARS**

ON THE DUE DATE, AND TO PAY INTEREST ON THE PRINCIPAL SUM FROM THE DATE HEREOF, AT THE RATE SPECIFIED HEREOF. THIS BOND AND INTEREST COUPONS ARE PAYABLE AT THE DEPARTMENT OF THE TREASURY, WASHINGTON, D.C., OR AT ANY FEDERAL RESERVE BANK OR BRANCH. THIS BOND IS ONE OF A SERIES OF BONDS, AUTHORIZED BY THE SECOND LIBERTY BOND ACT, AS AMENDED, ISSUED PURSUANT TO THE DEPARTMENT OF THE TREASURY CIRCULAR REFERRED TO HEREOF. ALL OR ANY OF THE BONDS OF THIS SERIES MAY BE REDEEMED, AT THE OPTION OF THE UNITED STATES, ON OR AFTER FEBRUARY 15, 2002, AT PAR AND ACCRUED INTEREST, ON ANY INTEREST PAY OR PAYABLE DATE. UPON NOTICE OF REDEMPTION GIVEN IN SUCH MANNER AS THE SECRETARY OF THE TREASURY SHALL PRESCRIBE, IN CASE OF PARTIAL REDEMPTION THE BONDS TO BE REDEEMED WILL BE DESIGNATED BY SUCH METHOD AS MAY BE PRESCRIBED BY THE SECRETARY OF THE TREASURY, FROM THE 10% OF MATURATION DESIGNATED IN ANY SUCH NOTICE. INTEREST ON THE BONDS CALLED FOR REDEMPTION SHALL BE THE INCOME DERIVED FROM THIS BOND IS SUBJECT TO ALL TAXES IMPOSED UNDER THE INTERNAL REVENUE CODE OF 1986. THIS BOND IS SUBJECT TO ESTATE, INHERITANCE, GIFT OR OTHER TAXES, WHETHER FEDERAL OR STATE, BUT IS EXEMPT FROM ALL TAXATION NOW OR HEREAFTER IMPOSED ON THE PRINCIPAL OR INTEREST HEREOF BY ANY STATE, OR ANY OF THE POSSESSIONS OF THE UNITED STATES, OR BY ANY LOCAL TAXING AUTHORITY. THIS BOND IS ACCEPTABLE TO SECURE DEPOSITS OF PUBLIC MONIES, IF IT IS NOT ACCEPTABLE IN PAYMENT OF TAXES.

WASHINGTON, D. C., FEBRUARY 15, 1977.

*William E. French*  
SECRETARY OF THE TREASURY

1000,000

ONE MILLION DOLLARS

1000,000

# **1. LOANS AND BONDS**

**General Differences**

- (1) Transferability**
- (2) Character of investors**
- (3) Number and anonymity of investors**
- (4) Issue mechanics**

- (1) ISSUE AND SALE FORMALITY**
- (2) DOCUMENTATION COMPLEXITY**
- (3) TRANSFERABILITY**
- (4) CREDIT CONTROL**
- (5) DEFAULT AND RECOVERY**



# 1. LOANS AND BONDS

SLIDE 3

## (1) ISSUE AND SALE FORMALITY

(1) LOANS Simple

(2) BONDS Complex

## (2) DOCUMENTATION COMPLEXITY

(1) LOANS Single Agreement

(2) BONDS Multiple Documentation

## (3) TRANSFERABILITY

(1) LOANS Limited

(2) BONDS Inherently Negotiable

## (4) CREDIT CONTROL

(1) LOANS Significant

(2) BONDS Limited

## (5) DEFAULT AND RECOVERY

(1) LOANS Credit Risk

(2) BONDS Sell-onss

## **OPERATIONAL DIFFERENCES**

- |            |                                |                                  |
|------------|--------------------------------|----------------------------------|
| <b>(1)</b> | <b>Disclosure requirements</b> | <b>No exemption</b>              |
| <b>(2)</b> | <b>Documentation</b>           | <b>More complex</b>              |
| <b>(3)</b> | <b>Advance of funds</b>        | <b>Single advance</b>            |
| <b>(4)</b> | <b>Currency conversion</b>     | <b>Impracticable</b>             |
| <b>(5)</b> | <b>Interest</b>                | <b>Fixed of floating (notes)</b> |
| <b>(6)</b> | <b>Repayment</b>               | <b>Limited flexibility</b>       |
| <b>(7)</b> | <b>Voluntary prepayment</b>    | <b>Excluded (selective)</b>      |
| <b>(8)</b> | <b>Margin protections</b>      | <b>No increased costs</b>        |



**SLIDE 5**

**OPERATIONAL DIFFERENCES**

<b>(9)</b>	<b>Payments and Equality</b>	<b>Coupons and no pro rata</b>
<b>(10)</b>	<b>Warranties</b>	<b>Subscription agreement</b>
<b>(11)</b>	<b>Covenants</b>	<b>Limited</b>
<b>(12)</b>	<b>Events of Default</b>	<b>Less strict / grace periods</b>
<b>(13)</b>	<b>Modifications</b>	<b>Consent unless meetings</b>
<b>(14)</b>	<b>Transfer</b>	<b>Fully negotiable</b>
<b>(15)</b>	<b>Prescription</b>	<b>Contractual cancellation</b>
<b>(16)</b>	<b>Governing Law</b>	<b>Standard</b>

## **2. STRUCTURE, PARTIES AND DOCUMENTATION**

### **1. STRUCTURE**

#### **Marketing and distribution methods:**

- (1) Private Placements          Selective placement**
- (2) Preliminary Prospectus Offerings**
- (3) Impact Day Offerings          Public advertisement**

### **2. PARTIES**

#### **Bond transaction participants:**

- (1) Managers                  3 to 12 to arrange issue**
- (2) Underwriters              Large group underwrite**
- (3) Selling Group              Professional dealers**

## **2. STRUCTURES, PARTIES AND DOCUMENTATION**

### **3. Documentation**

- |  |                               |
|--|-------------------------------|
| <b>(1) Prospectus of Offering Circular</b> | <b>Issue information</b>      |
| <b>(2) Subscription Agreement</b>          | <b>Managers and issuer</b>    |
| <b>(3) Underwriting Agreements</b>         | <b>Managers and Unders</b>    |
| <b>(4) Selling Agreements</b>              | <b>Managers/selling group</b> |
| <b>(5) Managers Agreement</b>              | <b>Lead Manager</b>           |
| <b>(6) Trust Deed</b>                      | <b>Trustee and Issuer</b>     |
| <b>(7) Fiscal Agency Agreement</b>         | <b>Issuer and Agent</b>       |
| <b>(8) Global Bond</b>                     | <b>Definitive bonds</b>       |



### **3. ISSUE PROCEDURES**

**SLIDE 8**

#### **Negotiation procedures**

- |             |                             |                                      |
|-------------|-----------------------------|--------------------------------------|
| <b>(1)</b>  | <b>Lead Manager</b>         | <b>Documentation preparation</b>     |
| <b>(2)</b>  | <b>'Launch Date'</b>        | <b>Send invitational telexes/POC</b> |
| <b>(3)</b>  | <b>Managers and Issuers</b> | <b>Agree 'coupon' and price</b>      |
| <b>(4)</b>  | <b>Managers and Issuers</b> | <b>Sign subscription agreement</b>   |
| <b>(5)</b>  | <b>Final Prospectus</b>     | <b>Despatched</b>                    |
| <b>(6)</b>  | <b>Selling Group</b>        | <b>Agree amounts sell</b>            |
| <b>(7)</b>  | <b>Trust Deed/FA</b>        | <b>Signed with Issuer</b>            |
| <b>(8)</b>  | <b>Stock Exchange</b>       | <b>Listing confirmed</b>             |
| <b>(9)</b>  | <b>'Closing'</b>            | <b>Deliver docs and global bond</b>  |
| <b>(10)</b> | <b>Definitive bonds</b>     | <b>Issued to custodian</b>           |

## **4. SPECIAL ISSUES AND TERMS**

**SLIDE 9**

**1. STABILISATION                      Managers authorised to stabilise**

**2. LISTING                      Access and price but comply listing rules**

**3. NEGOTIABILITY OF BONDS                      Perfect title**

***Goodwin v Robarts* (1876) 1 App Cas 476, Russian govt scrip issue negotiable**

***Picker v London and County Co* (1887) 18 QBD 515, Prussian bonds**

***Edelstein v Schuler* [1902] 2 KB 144, Bingham J 'usage so often proved' law**

***Bechuanaland Exploration Co v London Trading Bank* [1898] 2 QB 658**

***London Joint Stock Bank v Simmons* [1892] AC 201, Lord Macnaghten**

**4. GOVERNING LAW OF NEGOTIABILITY                      Chattels**

***Lloyds Bank v Chartered Bank of India* [1929] 1 KB 40, CA, place of negotiation or delivery**

**5. CLEARING SYSTEMS**

## **5. TERMS OF BONDS**

**SLIDE 10**

- |            |                                |  |
|------------|--------------------------------|--|
| <b>(1)</b> | <b>Face of Bond</b>            | <b>Promise to pay bearer</b>                         |
| <b>(2)</b> | <b>Fiscal Agency Agreement</b> | <b>Express incorporation</b>                         |
| <b>(3)</b> | <b>Form and Transfer</b>       | <b>Bearer form and pass by delivery</b>              |
| <b>(4)</b> | <b>Covenants</b>               | <b>Rare unless trustee to monitor</b>                |
| <b>(5)</b> | <b>Pari Passu Clause</b>       | <b>Unsecured and rank pari passu</b>                 |
| <b>(6)</b> | <b>Negative Pledge</b>         | <b>Limit to comparable securities</b>                |
| <b>(7)</b> | <b>Information</b>             | <b>Annual accounts and listing</b>                   |
| <b>(8)</b> | <b>Interest (a)</b>            | <b>Fixed Rate Annually in arrears specified date</b> |
|            | <b>(b)</b>                     | <b>Floating Reference agent fix rate</b>             |
|            | <b>(c)</b>                     | <b>Zero Coupon Deep Discount (30% par)</b>           |
|            | <b>(d)</b>                     | <b>Swaps Possible interest rate swap</b>             |

# TERMS OF BONDS

## SLIDE 11

<b>(9)</b>	<b>Redemption</b>	<b>(1) Bullet</b>	<b>Single instalment</b>
		<b>(2) Instalments</b>	<b>Fixed periodic instalments</b>
		<b>(3) Purchase Funds</b>	<b>Purchase agent</b>
<b>(10)</b>	<b>Perpetuals</b>		<b>Only redeemable on default</b>
<b>(11)</b>	<b>Voluntary Redemption</b>		<b>Sliding premium</b>
<b>(12)</b>	<b>Early Redemption</b>		<b>Withholding tax redemption</b>
<b>(13)</b>	<b>Purchase by Issuer</b>		<b>Generally no restrictions</b>
<b>(14)</b>	<b>Payments</b>		<b>Coupons</b>
<b>(15)</b>	<b>Prescription</b>		<b>Statutory or contractual</b>
<b>(16)</b>	<b>Events of Default</b>		<b>Non-payment, non-compliance, cross-default, insolvency, bankruptcy, dissolution, other creditor's processes and possibly substantial disposals</b>
<b>(17)</b>	<b>Acceleration and Enforcement</b>		<b>Trust deed no-action</b>
<b>(18)</b>	<b>Notices and Governing Law</b>		<b>Same</b>



## **5. COMMENT AND CONCLUSIONS**

**SLIDE 12**

- 1. Loans and bonds parallel origin and development at same time as discharge same economic function – early instruments same amount, term and approximate cost (interest rate)**
- 2. More recently preference transferable debt instruments as aprt larger ‘securitisation’ process especially where fully negotiable but require secondary market and sufficient credit standing**
- 3. Following early emergence bond format, number increasingly shorter term instruments evolve to dominate modern capital markets**
- 4. Continuing advantage syndicated term loans remain control and flexibility which may be appropriate and indeed essential in certain circumstances**
- 5. Both forms of financing remain core instruments in current best market practice within City of London and elsewhere.**

