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News release

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Sterling Bond Market: Speech by Ian Plenderleith

In a speech today to a conference organised by the Association of British Insurers (ABI), Ian Plenderleith, an Executive Director of the Bank of England and a member of the Monetary Policy Committee, reviews developments in the sterling non-gilt bond market. His speech is a response to an invitation by the ABI to offer preliminary comments on a research paper on the sterling non-gilt bond market published today by the ABI.

Mr Plenderleith agrees with the paper that, while the market has grown rapidly in recent years, it does not yet match the size or diversity of the dollar and euro bond markets. But they, of course, are much larger economies than the UK, and, to put the figures in perspective, he adds:

"I think one has to recognise that there has been a sizeable parallel activity by issuers raising sterling capital by issuing bonds in foreign currency - notably dollars and euro - and swapping into sterling. This is a thoroughly healthy development, because it reflects, and capitalises on, the global integration of modern-day capital markets; and, of course, much of the business is organised in London, whatever the currency, so that it benefits the UK financial services sector as well as UK issuers. But it does mean that, to get a handle on the scale of capital market financing in sterling, you have to look at funds raised in foreign currency and swapped back into sterling, as well as direct issuance in sterling."

He warmly welcomes the "thought-provoking" report and hopes it "will stimulate debate and discussion". He suggests that the points in the report are ones on which it is very much for market participants to take the lead:

"In many of these areas, it is far more effective for market participants to develop the way forward that will best serve the market's interests, rather than for the authorities to try to lay down a blueprint from on high. So I hope very much that market participants will give thought to the proposals in the paper and debate their merits constructively."

He offers views on two particular ideas in the report. First, on covenants, he expresses some concern about the suggestion in the report that covenants on sterling bonds should be expanded:

"Our impression [in the Bank of England], from contacts with a number of domestic issuers, is that the widespread use of restrictive covenants in the sterling markets reduces the attractiveness of issuing sterling bonds. Equally, it seems likely that these covenants may also be discouraging for foreign investors who are unfamiliar with them. Essentially, it seems to me that multiplication of different covenant clauses works against the grain of the inherent nature of bonds - that they are a standardised set of liabilities that can be traded one against another on the basis of judgements about the relative credit-standing of different issuers. My feeling, therefore, is that we should be trying to eliminate the contractual differences between sterling bonds and bonds issued in the dollar and euro markets."

Secondly, on liquidity, while he agrees with the report that the amount of capital devoted to market-making in sterling non-gilt bonds may have diminished in recent years, he suggests that:

"this development has not necessarily led to a deterioration in the liquidity conditions faced by market participants. Rather, it appears to me that liquidity has moved away from the provision of two-way price quotes to all-comers and towards providing liquidity more selectively to customers."

On the report as a whole, he ends by emphasising that:

" as a central bank with a strong interest in promoting good market structure, we are keen to see discussion of the various alternatives and to do what we can to help you find the best way forward. It is up to you, the main participants in this market, to reach a consensus on the best way forward and to implement it, but we are keen to help where we can. And in the meantime there is one very practical area where we can give assistance. Our main contribution towards maintaining the growth of the sterling bond market is to continue to ensure a low and stable inflationary background, consistent with the government's inflation target. That we shall continue to do, and that should help to increase the relative attractiveness of holding sterling bonds for both domestic and overseas investors."

Note for Editors

The paper "The Development of the Non-Gilt Sterling Bond Market", by Ruben Lee, is available from the Association of British Insurers, 51 Gresham Street, London EC2V 7HQ.

Key Resources

Sterling Bond Market - Full speech
http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2001/speech121.pdf