

# Capital market issues in the United Kingdom

*Notice issued by the Bank of England on 19 July 1982.*

1 This notice supplements that issued by the Bank of England on 10 November 1980 and provides further guidance on the arrangements which the Bank wishes to see observed for new issues in the UK capital market.

## Deep-discounted and indexed stocks

2 The Chancellor of the Exchequer announced on 25 June that, subject to the normal arrangements for obtaining timing consent from the Bank of England, companies are now free to issue deep-discounted (including zero coupon) stocks in sterling. They have for some time been free to issue indexed stocks in sterling. At the same time the Inland Revenue issued a statement clarifying the tax treatment of such stocks. The purpose of these announcements was to facilitate stock issues by companies, as an alternative source of finance to bank borrowing.

3 The procedure for obtaining timing consent from the Bank of England, which is required under the Control of Borrowing Order 1958 (as subsequently amended), is set out in the Bank's notice of 10 November 1980 (paragraphs 5 and 6). Deep-discounted and indexed stock issues will be brought into the new issues queue, which the Bank operates through the Government Broker. Requests for timing consent should in the first instance be directed to the Government Broker at Mullens & Co; and issues for which timing consent is granted will be assigned a date in the queue, which may not be altered without re-application for timing consent.

4 Subject to this requirement, deep-discounted and indexed issues may be made both by UK and by foreign companies. The Bank will regulate the size and frequency of such issues to avoid the risk of congestion in the market and to leave capacity for issues by UK companies. In administering the queue the Bank will have regard to differences between UK and foreign regulations governing the tax treatment of such issues.

5 Since the intention of the Chancellor's announcement is to facilitate stock issues by companies, it remains the position that approval from H M Treasury will not for the time being be forthcoming for deep-discounted or indexed issues by local authorities. For the same reason, approval will not at present be given for such issues, whether in the domestic or in the sterling eurobond market, by other sovereign, parastatal or public sector borrowers. Approval for such borrowers to make conventional issues on a full-coupon, non-indexed basis will continue to be given subject to the requirements of the Bank's notice of 10 November 1980.

## Sterling eurobonds

6 In the Bank's notice of 10 November 1980, it was stated that the Bank did not at that stage consider it necessary to operate a queue for issues of sterling eurobonds, since such issues appeared to have only a limited impact on the domestic market. It was indicated, however, that the Bank might wish to regulate the timing of sterling eurobonds if they came to have an important impact on the domestic market.

7 Over the past two years the domestic sterling capital market and the sterling eurobond market have tended to become more closely integrated; and there have been signs more recently that issues of sterling eurobonds can attract significant domestic investment interest. The Bank considers that, in order to promote the development of the sterling capital market on an efficient and orderly basis, it would now be appropriate to take steps to ensure where necessary that sterling eurobond issues are not a source of disturbance to issues in the domestic market.

8 Accordingly, sterling eurobond issues will henceforth be subject to the requirement, already applied to domestic market issues, that the consent of the Bank should be sought in advance for the timing of the proposed issue. The Bank will seek to ensure that such issues do not create disturbance to issues in the domestic market, but subject to that consideration timing consent will normally be given, having regard to the distinctive character of the eurobond markets, and the Bank does not in present circumstances envisage instituting a queue of firmly allotted forward dates for sterling eurobonds. Requests for timing consent should in the first instance be directed to the Government Broker at Mullens & Co.

## Access to the gilt-edged market

9 The Bank's notice of 10 November 1980 recorded that it was a requirement for the admission of securities to the gilt-edged market that they should on issue be offered in their entirety for public subscription, unless the issue was £7 million or less in amount. The opportunity is taken in this notice to confirm that in June 1981, as was communicated to the market at the time, The Stock Exchange, with the agreement of the Bank, increased the limit of £7 million to £12 million.

10 In all other respects the Bank's notice of 10 November 1980 remains in effect. The Bank's Gilt-edged Division stands ready to respond to questions on this and the earlier notice and to give guidance on other matters which may arise in relation to capital issues in the UK.