

Short-term corporate bonds

Notice issued by the Bank of England on 19 March 1985.

1 Interest has recently been expressed by a number of companies in issuing short-dated bonds, of a maturity of less than five years. The authorities are keen to encourage that interest and this notice describes the steps which are being taken to facilitate such issues.

2 The arrangements described in this notice will apply to issues of bonds (and floating-rate notes) in sterling (including issues carrying a sterling option) of an initial maturity of between one and five years.

3 The principal constraint on short-dated bond issues hitherto has been that they could in certain circumstances result in the issuer carrying on a 'deposit-taking business' in contravention of the Banking Act. To remove this constraint, HM Treasury has today announced that regulations under the Banking Act will be made to exempt from the prohibition on deposit-taking in section 1 of that Act sterling bond issues by companies which meet certain specified requirements set out in the regulations. These requirements, which are summarised below, are intended to ensure that bond issues exempt from the prohibition on deposit-taking are nonetheless made under safeguards for investor protection.

4 The requirements are that:

- (i) Such issues will be permitted by companies, both UK and overseas, whose shares are listed on The Stock Exchange or are dealt in on the unlisted securities market.
 - (ii) Bonds issued in this maturity area should either be listed on The Stock Exchange or be issued pursuant to a prospectus which contains the information specified in sections 37 and 38(1) or section 417 of the Companies Act 1948.
 - (iii) Issues should be made, and transferable, in minimum amounts of £100,000.
 - (iv) Issues are to be of a minimum maturity of one year.
 - (v) Until the accrued income scheme recently announced by the Inland Revenue takes effect on 28 February 1986, interest on bonds issued under these arrangements is to be paid at intervals of not greater than six months.
 - (vi) Issues will also require prior timing consent from the Bank of England under the Control of Borrowing Order. Requests for timing consent should be made to the Government Broker at Mullens & Co in the normal way.
- 5 The Bank recognises that companies contemplating issues in this maturity area will wish to retain the maximum flexibility over timing. Consent will therefore normally be given for immediate issue provided the Bank is satisfied that the requirements of paragraph 4 above are met.
- 6 The Bank also recognises that it may be helpful to companies to be able to issue bonds in this maturity area on a tap basis. Issues on a tap basis would hitherto have been likely to contravene section 1 of the Banking Act, but will be possible when the new regulations come into operation. Prior approval from the Bank of England will be required for tap issues and, as for discrete issues in paragraph 5 above, will normally be given for immediate issue in this maturity area provided the Bank is satisfied that the requirements of paragraph 4 above are met. So that the flow of tap issues can be monitored, approval for such issues will take the form of consent for a specified maximum amount of bonds to be tapped out over a specified period ahead, and consent for additional amounts and/or additional periods will be normally given once the initial limits have been reached provided the Bank is satisfied that the requirements of paragraph 4 above continue to be met. HM Treasury has today announced that the Control of Borrowing Order 1958 will be amended to provide for the Bank to be able to approve the amount and period of tap issues in addition to the existing provision for the Bank to approve the timing of discrete issues.
- 7 The arrangements for capital market issues of five or more years' maturity remain unchanged. The Bank's notices of 10 November 1980 and 19 July 1982 on capital market issues in the United Kingdom continue to apply.
- 8 The Bank's Gilt-edged Division stands ready to respond to questions on this and the earlier notices and to give guidance on other matters which may arise in relation to capital market issues in the United Kingdom. Questions relating to the Banking Act should be directed to the Bank's Banking Supervision Division.