

# Sterling commercial paper

*Notice issued by the Bank of England, 29 April 1986*

1 Interest has been expressed by a number of companies in issuing short-term debt securities in sterling, with a maturity of less than one year, of a type similar to dollar commercial paper issued in the United States and in the international markets. This notice describes arrangements to enable companies to issue such paper. The arrangements extend the steps taken in March 1985 to facilitate the issue of short-term corporate bonds with a maturity of between one and five years (described in the Bank of England's notice dated 19 March 1985).

2 The arrangements described in this notice apply to issues of debt securities in sterling (including issues carrying a sterling option) with maturities of less than one year but not less than seven days. Such securities may appropriately be known as 'sterling commercial paper' and the Bank of England would wish that title to be applied only to securities issued in accordance with the arrangements set out in this notice.

3 The principal constraint on issues of this kind is 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, a regulation under the Banking Act is being made to exempt such issues from the prohibition on deposit-taking in Section 1 of that Act provided they meet certain requirements specified in the regulation. These requirements, which are incorporated in the arrangements summarised below, are intended to ensure that issues of sterling commercial paper which are exempted from the prohibition on deposit-taking are nonetheless made under safeguards for investor protection.

4 The arrangements which will apply to sterling commercial paper are as follows —

- (i) **Issuers.** Issues will be permitted by companies, both United Kingdom and overseas, which have net assets (as defined in Section 264 (2) of the Companies Act 1985) of at least £50 million and whose shares (ordinary or preference) are listed on The Stock Exchange, or by their wholly-owned subsidiaries provided that the securities are guaranteed by the listed parent company. The Bank of England would not wish issues to be made by recognised banks or licensed deposit-takers (nor generally by their subsidiaries or holding companies) nor by building societies, who are able to issue certificates of deposit.

There will be no objection to issuers arranging for their paper to be guaranteed by a recognised bank or licensed deposit-taker, provided the issuer itself meets the requirements set out above; but the Bank of England would not wish sterling commercial paper to be issued with a guarantee from any other source (except for issues by wholly-owned subsidiaries guaranteed by their listed parent, as provided above).

(ii) **Description.** The securities should carry —

(a) a statement that they are sterling commercial paper issued in compliance with Regulation 16 of the Banking Act 1979 (Exempt Transactions) Regulations 1983; and

(b) **either** a statement to the effect that the issue does not carry the guarantee of any recognised bank or licensed deposit-taker **or**, if it is so guaranteed, a statement to that effect giving the name of the guarantor.

(iii) **Disclosure.** Where no prospectus is issued, companies issuing sterling commercial paper should make a representation to the purchaser, in a statement reproduced on the securities, to the effect that the company or, if the paper is guaranteed by its parent, the parent is in compliance with its obligations under the Listing Regulations in respect of its shares listed on The Stock Exchange and that, since its last publication of information in compliance with the Listing Regulations, the company, having made all reasonable enquiries, has not become aware of any change in its circumstances which could reasonably be regarded as significantly and adversely affecting its ability to meet its obligations on the paper as they fall due.

(iv) **Minimum amount.** Sterling commercial paper should be issued, and be transferable, in minimum amounts of £500,000.

(v) **Maturity.** Sterling commercial paper should have a maturity of less than one year but not less than seven days.

(vi) **Monitoring.** Issues will not require timing consent from the Bank of England under the Control of Borrowing Order, which is being amended to remove sterling commercial paper from its application. But issuers should notify the Bank of England —

(a) at the commencement or extension of any sterling commercial paper programme, of the total amount of paper they propose to issue under the programme;

(b) within one week after the third Wednesday of each month<sup>(1)</sup> and within one week after the end of each calendar quarter, of the amount of sterling commercial paper outstanding as at that Wednesday or end-calendar quarter and of the amount of paper issued and redeemed since the previous report, distinguishing in each case between paper guaranteed by a recognised bank or licensed deposit-taker and paper not so guaranteed.

This information should be submitted in writing to the Bank of England, Threadneedle Street, London EC2R 8AH, addressed to the Head of the Financial Statistics Division (marked for the attention of Group 5/4).

- (vii) **Management of issues.** Issuers may, if they wish, issue sterling commercial paper direct to investors. Alternatively they may engage an intermediary to manage the issue, either in a purely agency role, to distribute paper on a best endeavours basis, or with a commitment by the intermediary to buy or underwrite the paper.

The Bank of England recognises, however, that different kinds of intermediary may at present be subject to differing regulatory arrangements in relation to their management activities in sterling commercial paper. To avoid the uneven competitive environment to which this could give rise, the Bank will wish to put in place a framework for the management of sterling commercial paper issues which provides for intermediaries to compete on a level basis in terms of the regulatory arrangements to which they are subject.

To this end, the Bank would initially wish sterling commercial paper issues to be managed only by recognised banks and licensed deposit-takers who (in both cases) are incorporated in the United Kingdom (and for whom the Bank has thus itself established capital adequacy and liquidity requirements). When the Financial Services Bill is operative, the Bank envisages that it may be possible to allow other types of intermediary to manage sterling commercial paper issues, to the extent that their activities in this area are covered by regulatory arrangements provided for in that

legislation; the Bank will accordingly review the position when the shape of those regulatory arrangements is clearer. In the meantime, individual intermediaries who have an interest in managing sterling commercial paper issues, but are not UK-incorporated recognised banks or licensed deposit-takers, are invited to contact the Bank to discuss their position. The Bank will be ready to review with them whether there is scope for them to manage issues ahead of the Financial Services Bill becoming operative, on a basis that maintains level competition in terms of regulatory arrangements.

5. These arrangements do not affect the obligations of issuers of sterling commercial paper under other legislation. It is envisaged that regulations made by the Secretary of State under the Financial Services Bill will in due course relieve issuers of sterling commercial paper of the normal requirements of that legislation in respect of prospectuses for debt securities. Meantime, a provision is being added to the Financial Services Bill with the object of extending to companies incorporated in Great Britain, in respect of sterling commercial paper offered to professional investors, the dispensation from publishing a full prospectus which Section 79(2) of the Companies Act 1985 already provides for overseas companies. Issuers should consult their legal advisers on the obligations which arise in their particular case.
6. The Inland Revenue have confirmed that —
  - (i) interest on sterling commercial paper can normally be paid without deduction of income tax;
  - (ii) interest/discount incurred by the issuer as a trading expense will normally be deductible in computing profits for corporation tax;
  - (iii) the arrangements for taxation of the return earned by holders of sterling commercial paper are those applying to certificates of deposit; and
  - (iv) the issue and transfer of sterling commercial paper will be free of stamp duty.
7. The arrangements for sterling capital market issues with a maturity of one year or more remain unchanged. The Bank of England's notices of 10 November 1980, 19 July 1982, 19 March 1985 and 13 March 1986 continue to apply.
8. Enquiries about this and the Bank's earlier notices should be directed to the Bank's Gilt-Edged Division. Enquiries relating specifically to the Banking Act should be directed to the Bank's Banking Supervision Division.

(1) Up to and including the third Wednesday of September 1986. Thereafter, all returns should relate to end-calendar months.