Capital market issues in sterling

Notice issued by the Bank of England on 27 July 1987

1 This guidance notice brings together the Bank of England's current guidelines on capital market issues in sterling. It describes the basic framework currently operated by the Bank, and incorporates certain changes introduced in the light of recent discussions with market participants. Three main aspects are covered in the notice—timing consent, lead management and the structure of sterling issues.

2 The Bank wants to be able to monitor activity in the sterling capital market in order to promote the development of the market on an efficient and orderly basis. To that end the Bank would wish to be consulted in advance on any features of sterling issues which are new or have implications for the development of the market. Such consultation should be directed to the Bank's Gilt-Edged Division: the point of contact is the Senior Manager (Sterling Capital Markets) or his staff (telephone numbers: 601 4766 and 601 4835).

I Timing consent

The statutory requirement

3 New issues in sterling for amounts of £3 million or above require timing consent from the Bank of England before the issue is made; this is a statutory requirement under the Control of Borrowing Order 1958 (as subsequently amended). The purpose of timing consent is to enable the Bank to monitor the flow of new issues. Requests for timing consent should be directed to the Government Broker in the Bank's Gilt-Edged Division (telephone numbers: 601 5200 and 601 4835).

The new issues queue

4 As part of the process of timing consent, the Bank operates a new issues queue whose basic purpose is to encourage the maximum continuing flow of issues by seeking to maintain orderly conditions in the new issues market. Reflecting this purpose, the Bank seeks to operate the queuing arrangements flexibly and to adapt them from time to time in response to market developments. In operating the queue the Bank's guiding principle is to try to avoid inadvertent clashes between large competing issues, while seeking wherever possible to meet the timing requested by an issuer.

The operation of the queue

5 In operating the queue, the Bank follows essentially the *same approach* for all types of sterling issue—equities (whether offers for sale, rights issues or placings), bonds and floating-rate notes, whether sold into the domestic market or internationally.

6 For all these types of issue, issuers may if they wish *book a date in advance* up to a reasonable time ahead; or alternatively they may approach the Bank at any time to *bring an issue at short notice.*

7 Issuers who wish to *book a date in advance* should approach the Government Broker for timing consent, as provided in paragraph 3 above, and the Bank will wherever possible approve the timing requested; this may result in more than one issue coming to market on the same day. In particular circumstances, however, the Bank may wish to suggest an alternative timing—for example, if there is already a large issue booked on or close to the date requested, or if a concentration of large or similar issues in a short period seems likely to be a source of market disturbance; in these circumstances the Bank will always endeavour to find an issuer an alternative date as close as possible to the timing requested.

8 For *offers for sale*, the Bank will normally try to find a date when the issue can be brought without another offer on the same day. Where this proves difficult, the Bank would expect to consult the issuing houses concerned about the possibility of sharing a date for their offers.

9 Issuers who have not booked a date in advance may approach the Bank at any time to *bring an issue at short notice*, and the Bank will treat such issues in essentially the same way as normal bookings. Thus the Bank will wherever possible approve the timing requested, but if there is an unacceptable clash with issues already booked in that period the Bank may need to suggest an alternative timing.

10 Over the past year *vendor placings* have come increasingly to have a market impact similar to other forms of issue, particularly where they contain provision for clawback in favour of existing shareholders. The Bank has therefore tended to treat vendor placings on the same basis as other issues for the purpose of timing consent, and will continue to do so in future.

11 In the new market structure some market participants have enquired how the arrangements for timing consent will be applied to possible *'bought deals'*. Since such issues are likely in practice to begin distribution immediately they are bought, their market impact is likely to be similar to that of conventionally underwritten issues. The Bank therefore proposes to treat 'bought deals' on the same basis as any other issue brought at short notice, as provided in paragraph 9 above.

12 Issues by *foreign public sector bodies* (eg sovereign and parastatal borrowers) have at times in the past been a potential source of market congestion, reflecting the tendency of such borrowers to want to concentrate their issues on periods of particular market strength. The way in which the Bank will respond to the prospect of congestion in this area depends upon whether an issue is principally aimed for distribution in the domestic market or abroad. Where an issue by this type of borrower is principally aimed

for distribution abroad, the Bank will wherever possible approve the timing requested, subject to being satisfied that the issue will not be a source of disturbance to issues in the domestic market. Where an issue is likely to have a significant impact on the domestic market, the Bank has needed at times to space out issues by this type of borrower in order to avoid undue bunching, and will continue to do so to the extent necessary to avoid market congestion. The need to space out issues by foreign public sector bodies in this way may arise not only in relation to bulldog issues,[1] but also on occasion in relation to sterling eurobond issues where they are likely to have a significant impact on the domestic market.

13 The Bank will keep all the arrangements outlined above under review and will be ready to respond to views from market participants on ways they might be adapted as the market develops.

II Lead management

14 In order to promote the orderly development of the sterling capital market and to ensure that the Bank can adequately monitor activity in the market, it remains the Bank's wish that capital market issues in sterling, including those carrying a sterling option or a sterling-related element, should be managed and organised in the United Kingdom, though they may, of course, be sold abroad (subject to relevant local regulations). To that end, the Bank would wish lead-management arrangements to follow the guidelines set out in paragraph 16 below. These essentially require lead-managers to satisfy the Bank that they meet two tests—capacity in the United Kingdom to lead-manage and reciprocity.

15 Hitherto the Bank's guidelines have included the provision that, where sterling issues are lead-managed by foreign-owned firms, it would expect such issues to be co-lead-managed by a UK-owned firm. Since the sterling capital market was reopened to foreign borrowers with the ending of exchange control in 1979, there has been a substantial expansion of new issue activity, in which UK-owned firms have played a major part. In the light of this progress, the Bank has agreed with market participants that the requirement for a UK-owned co-lead-manager can now lapse.

16 Accordingly, the Bank's lead-management guidelines are as follows:

(i) The Bank will continue to wish all capital market issues in sterling, including those carrying a sterling option or sterling-related element, to be lead-managed by a UK-based firm with the capacity in the United Kingdom to act as an issuing house.

(ii) Foreign-owned firms with such a capacity will be eligible to lead-manage sterling issues if in the Bank's view there are reciprocal opportunities in their domestic capital markets for UK-owned firms to lead-manage issues. Firms who do not meet the guidelines for lead-management are able to participate freely in sterling issues in a co-management position, but not as a lead manager or co-lead-manager.

III Structure of sterling issues

17 The Bank is keen to facilitate innovation in the types of instruments issued in the sterling capital market. As indicated above, to enable it to monitor developments the Bank would wish to be consulted in advance on features of sterling issues which are new or have implications for the development of the market; but the Bank would not expect to object to new features unless they seem likely to be a source of market disturbance.

18 In response to enquiries from the market the Bank has from time to time given guidance about specific aspects of the structure of sterling issues, as follows.

Size of issues

19 There is no limitation on the size of equity or debt issues by corporate issuers. But to ensure a reasonable balance among different types of issue coming to the market, the Bank has hitherto set a limit of £100 million per issue on issues by foreign sovereign or parastatal borrowers, applicable to issues in both the bulldog and the sterling eurobond markets. Now that some of these issues are beginning to come to maturity, the Bank has reviewed the scope for increasing the ceiling and has concluded that it would be appropriate to increase it to £200 million per issue. The Bank will continue to expect there to be a reasonable interval between successive issues by a single sovereign or parastatal borrower.

Maturity

20 The Bank would not wish bond or FRN issues to have an initial maturity of less than five years, but there is no upper limit on maturity. Issues of paper of up to and including five years' maturity can be made under specific guidelines which are set out in three guidance notices: Short-term Corporate Bonds, for debt issues of 1–5 years' maturity (notice issued on 19 March 1985); Sterling Commercial Paper, for 7–364 days' maturity (notice issued on 29 April 1986); and Short-term Paper Issues by Deposit-taking Institutions, for certificates of deposit (notice issued on 26 November 1986).

Deep discount, zero coupon and index-linked stocks

21 Subject to the normal requirement for timing consent under paragraph 3 above, both UK and foreign companies may issue deep discount (including zero coupon) and index-linked stocks. It remains the position, however, that approval will not at present be given for issues of this type by UK local authorities or by foreign sovereign, parastatal or public sector borrowers.

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22 This notice supersedes the Bank's notices on 'Capital Market Issues in the United Kingdom' dated 10 November 1980 and 19 July 1982. The Bank's Gilt-Edged Division stands ready to respond to any questions on this notice and to give guidance on other matters which may arise in relation to capital market issues in sterling.

(1) When the need to space out issues by foreign public sector bodies arises, the Bank maintains a 'waiting list' for bulldog borrowers who have a firm intention to bring an issue but, because of the spacing out, are still awaiting a place in the queue.