

## Eurocommercial paper rates

The marked trend towards securitisation of lending over the last 3 or 4 years has included a rapid growth in the issue of short-term paper under euronote facilities. In the early stages the programmes under which much of this paper was issued were underwritten facilities—NIFs and RUFs; more recently, however, growth has been concentrated on non-underwritten programmes, the paper generally being referred to as eurocommercial paper rather than euronotes. The market in this paper has been heavily concentrated in London and the Bank is engaged with the Euronote Association, a recently formed association of over 40 of the major participants in the euronote and eurocommercial paper market, in establishing better information on this market. As part of this exercise the Bank is about to start publishing series of representative daily rates for this paper. These rates will cover 1, 2, 3 and 6-month maturities.

The published rates will be those quoted for US dollar denominated eurocommercial paper issued by companies, including bank holding companies but excluding banks. In order that they should reflect returns on a standard quality of paper, rates for paper issued by companies rated either P1 by Moody's or A1 by Standard and Poor's, or both, will initially be used to compile the representative rates; no higher or lower rated paper will be included. In principle, paper rated by any other agencies regarded in the market as rating a wide range of paper according to comparable criteria could also be included. At a later date consideration may be given to publishing rates for sovereign issues or other classes of paper in which the market develops to sufficient depth.

The published rates will be those quoted in the primary market, a market which has much greater depth than the secondary market. They will measure returns to investors on newly issued paper, rather than costs to borrowers: the latter are affected by fees and spreads which are not always readily measurable. They will be quoted as absolute rates on a yield basis, not as margins against a

reference rate such as LIBOR which can vary from bank to bank, for spot (2 day) delivery and settlement.

The Bank will approach a panel of 7 dealers for rates at 11.30 am each day. The panel will be drawn by the Bank from active eurocommercial paper dealers, and its composition, which will not be published, may be varied from time to time.

Quotations will normally be based on actual deals. However, when the number of recent deals in paper of the specified quality is too low to give satisfactory quotations, dealers will use their market judgement to give rates they would expect to quote to investors if issuers brought such paper to the market at that time; such rates may be influenced by actual deals done in other types of paper, adjusted by appropriate margins.

The Bank will publish as the daily representative rate for each maturity band the median rate quoted, ie rates will be ranked and the middle one chosen. The advantages of this procedure are that it always uses a quoted rate, avoids higher apparent levels of accuracy which arise from the calculation of certain types of average such as the mean, and minimises risk of distortion from extreme observations. The Bank will, however, monitor the extent to which the median differs from other measures, particularly the mean, the spread of the rates quoted and the extent to which individual dealers quote rates broadly in line with the market.

Rates will be published at 4.15 pm each day via Reuters and Telerate. The Bank is also considering publishing a selection of historical rates in a more permanent medium, probably Table 18 of the *Bulletin* where Friday rates for certain sterling and dollar short-term instruments are published.

The Bank intends to begin issuing rates through Reuters and Telerate on Monday, 17 August.