
Statistics on euronotes and eurocommercial paper

This note describes a statistical investigation into the amount of paper issued under short and medium-term euronote and eurocommercial paper programmes. This fast growing market, an element in the spreading trend towards securitised forms of lending, has not hitherto been properly covered in the statistics compiled to monitor international credit flows: the study reported here was undertaken to help make good that deficiency.

The preceding article describing the sterling commercial paper market notes that London has become the centre of the euronote and eurocommercial paper market. The origins and evolution of this market were described in a report⁽¹⁾ published by the Bank for International Settlements (BIS)—the Cross Report. In the early stages of this market's development, notes were generally issued through underwritten facilities (eg note issuance facilities). More recently there has been a trend towards issuing non-underwritten notes and such notes are generally referred to as eurocommercial paper (ECP); short and medium-term notes issued under an underwritten facility are described here more simply as euronotes.

The Bank has compiled statistics of announced facilities for the issue of various euronotes and ECP and these are published and described regularly in the international financial developments section of the *Quarterly Bulletin* (see pages 512–13). However, the amount of paper issued under these facilities has fallen well short of the value of programmes arranged, to the extent that perhaps only one third of these programmes has been utilised at any one time. Information on amounts of paper drawn is less well documented and the Cross Report drew attention to this as a potential gap in the statistics compiled by the BIS and used to monitor the international financial markets. It recommended that this gap should be filled. With the market in this paper very largely concentrated in London, the Bank has responded to this recommendation by carrying out an enquiry to establish the amount of short-term paper issued and various analyses of it. The coverage of this enquiry has excluded domestic currency paper, a substantial part of which is issued by domestic issuers for local use, and also London foreign currency CDs, for which information is already collected by the Bank through its established banking statistics system. Also excluded were issues of bonds where information on both amounts issued, by nationality of issuer, and in many cases amounts held by banks within the BIS reporting area, often with a geographical analysis of holdings, were already available. Medium-term notes that have become an increasing, albeit still small, feature of recent issues, and are not covered by other sources, were included in the Bank's enquiry.

Following discussions with participants in the market and with the newly formed Euronote Association, the Bank decided to adopt a two-pronged programme for collecting information. First, a benchmark survey was launched involving approaches to issuing agents who appeared best placed to report on amounts of paper issued and still outstanding in the market and on the geographical location of the borrowers. Second, since much of the paper is held by the four clearing houses handling such paper, it seemed sensible to explore whether information might more efficiently be collected from this source.

In the course of discussions with the Euronote Association it emerged that the Association was itself interested in seeing statistics compiled as an aid to monitoring the development of this fast growing market and endorsed the enquiry being planned by the Bank. The Association was also keen to see information collected on prices at which paper traded, and series of daily rates have been collected and published by the Bank since mid-August. The compilation of these rates is described in a note on page 413 of the *August Bulletin*. The rates themselves are collected shortly after 11.30 am and are published daily at 4.15pm on Reuters screen RTCG and Telerate page 17347. It is intended that some representative rates will be published in Table 18 of the statistical annex, starting in the February 1988 *Bulletin*. By that time a rather longer run of figures will be available than is presently the case.

Benchmark enquiry of issuing agents

The Bank approached approximately thirty-five issuing agents including (through UK associates) ten located abroad. They were invited to complete a questionnaire giving amounts of notes and paper outstanding at 30 June 1987 with information classified by geographical location and sector (bank/non-bank) of borrower, type of instrument and type of facility (underwritten or non-underwritten). This produced a total of paper outstanding of \$40.5 billion at end-June 1987, including \$0.9 billion of medium-term notes and \$3.1 billion of non-London CDs. Borrowing by banks accounted for \$12.4 billion and by non-banks \$28.1 billion. The geographical breakdown of borrowers is given in Table A.

(1) *Recent innovations in international banking*, published by the BIS, April 1986.

Table A
Geographical analysis of euronote and ECP borrowers at 30 June 1987^(a)

\$ billions	
United States	8.7
Australia	7.2
Sweden	3.8
France	3.0
Netherlands	2.6
Finland	2.0
Norway	2.0
United Kingdom(b)	1.4
Spain	1.3
Italy	1.2
New Zealand	1.2
Denmark	1.1
Austria	0.7
Other BIS reporting area	2.4
Other developed countries	0.9
Latin America	0.5
Other countries	0.5
Total	40.5

(a) These figures are reported by issuing agents. Overseas branches and subsidiary companies are classified according to their country of residence, not by nationality of parent.

(b) Non-banks only.

Clearing houses estimates

In parallel to the approach to issuing agents, the Bank also explored with the four clearing houses whether similar information might be available from their records. It was recognised that coverage of information from this source might be slightly different—including issues through certain issuing agents outside the United Kingdom that the Bank survey could not cover but possibly excluding some paper not held within the clearing systems (eg private placements). In the event, several clearing houses found difficulty providing the amount of detail required, so that only aggregate figures from the four houses were received. One house, Euro-clear, was, however, able to make estimates of the total on the basis of information provided to it by issuing agents registering issues. Furthermore, Euro-clear was able to make these estimates of the total amount of paper outstanding monthly. It was also able to provide the geographical and other analyses required.

Comparisons of sources

Some adjustments are required to bring the Euro-clear estimates onto a basis comparable with the issuing agents' figures. For example the Euro-clear database includes some domestic currency issues and some issues by banks in the United Kingdom that are excluded from the Bank's benchmark survey. Adjusting for these coverage differences produces a total at end-June 1987 of \$41.9 billion, \$1.4 billion higher than the issuing agents survey. Exploring this discrepancy further, it appears that some twenty small issuing agents, mainly located outside the United Kingdom, were not covered by the survey and these agents may have handled issues of about \$2 billion. That would suggest notes not registered with Euro-clear (eg private placements) might total some \$0.6 billion. The relationship between the two sources is illustrated in Table B.

The good degree of reconciliation that it was possible to achieve in aggregate between these sources was encouraging. The tie-up was rather less good in the

Table B
Comparison of Euro-clear and Bank of England estimates of euronotes and ECP outstanding—30 June 1987

\$ billions	Short-term notes issued under committed facilities	Euro-commercial paper	Medium-term notes	Total
Euro-clear estimates				
Monthly series	15.8	25.9	1.0	42.6
less 'local' commercial paper	- 0.8	1.0	—	0.2
less borrowing by banks in UK	0.1	0.2	0.2	0.5
Adjusted Euro-clear estimates	16.5	24.7	0.8	41.9
Bank of England survey of issuing agents				
	9.5	30.1	0.9	40.5
Difference (Euro-clear higher = +)	+ 7.0	- 5.4	- 0.2	+ 1.4
Analysis by sector of borrower				
	Banks	Non-banks	Total	
Adjusted Euro-clear estimates	13.2	28.7	41.9	
Bank of England survey of issuing agents	12.4	28.1	40.5	
Difference (Euro-clear higher = +)	+ 0.8	+ 0.6	+ 1.4	

Components may not sum to totals because of rounding.

subsidiary analyses, no doubt because of classification problems.

The major area of difficulty in reconciling the figures proved to be with the underwritten/non-underwritten split. Here, both sources encountered difficulties in recording accurate information, partly because issuing agents are often not aware whether a particular tranche of paper is underwritten or not. Thus, estimates of the amount of underwritten paper vary from \$9.5 billion (Bank survey) to \$16.5 billion (Euro-clear). The purpose for which this split is required—to allow estimates to be

Table C
Monthly estimates of euronotes and ECP outstanding^(a)

\$ millions	Short-term notes issued under committed facilities	Euro-commercial paper	Medium-term notes	Total
1986				
January	—	16,000(b)
February	—	18,500(b)
March	14,928	4,506	—	19,434
April	14,201	5,522	—	19,723
May	15,032	6,011	—	21,043
June	13,925	7,178	—	21,103
July	15,077	9,051	7	24,135
August	15,069	10,934	7	26,010
September	14,564	12,397	10	26,971
October	15,292	14,845	230	30,367
November	16,223	15,384	322	31,929
December	15,149	13,926	359	29,434
1987				
January	16,741	16,056	341	33,138
February	15,749	18,227	555	34,531
March	16,528	20,409	681	37,618
April	15,901	22,807	681	39,389
May	16,071	24,073	773	40,917
June	15,775	25,881	951	42,607
July	17,017	30,555	1,710	49,282
August	17,684	31,447	1,862	50,993
September	18,273	33,643	1,926	53,842

.. not available.

Source: Euro-clear.

(a) These estimates include a small amount of domestic currency paper issued on domestic commercial paper markets (sterling and Netherlands guilder issues).

(b) Figures given by external sources such as Euro-Money and Merrill Lynch.

made of undrawn but committed facilities—is made more difficult to achieve because multiple-option facilities allow borrowers to draw in a range of instruments, some outside the scope of these enquiries. Bearing these difficulties in mind, and the fact that the trend of issues is increasingly towards non-underwritten eurocommercial paper, which already accounts for perhaps two thirds to three quarters of all paper outstanding, it does not seem worthwhile pursuing further attempts to obtain accurate estimates of this split.

Conclusion

A reassuring consistency has been established between the two sources of information investigated and this gives confidence in the wider use of these sources. In particular,

the Euro-clear estimates have been compiled monthly from early in 1986 (Table C) and illustrate the very rapid growth of the short-term europaper markets. Notwithstanding the uncertainties attaching to the breakdown between notes issued under committed facilities and ECP, the table demonstrates the marked trend towards non-underwritten ECP issues. Notes have been issued predominantly by borrowers in developed countries, the principal borrowing countries being the United States, Australia, Sweden and France. Some two thirds of the borrowing has been by non-banks.

The Bank is grateful for the help, advice and information received from the Euronote Association, from Euro-clear and from other institutions that participated in the surveys.