

Prime Minister

To note.

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Treasury Chambers, Parliament Street, SW1P 3AG
071-270 3000

PRIME MINISTER

Ramy / M. October
[Signature]

ECU BOND ISSUE

at Claf

I minuted you on 12 February to let you know that I had decided to proceed with our first ecu bond issue, which had been foreshadowed in your Mansion House Speech last year. This is to inform you of the successful outcome.

The issue was launched on 13 February. Initially, 2 billion ecu of bonds were offered. However, the strength of demand was such that we were advised by Morgan Stanley (the lead managers) and the Bank of England to increase the offer to 2.5 billion ecu. This was the largest ever ecu bond issue and it has become the benchmark issue against which other 10 year ecu bonds are valued.

I was also pleased that we achieved our pricing objective. This was to secure a higher price (and thus a lower yield or interest cost) than the existing French 10 year issue. Before the offer, I agreed that a result in the range of 1 - 4 basis points below the comparable French yield would be acceptable. In the event, the offer was priced at the top end of this range ie 4 basis points below the prevailing yield on the comparable French issue, at 9.125 per cent. This is the highest price (lowest yield) on a 10 year ecu issue. In the first few days of trading in the market, our bond has maintained roughly the same premium over the French issue.



Reaction in the markets and the financial press has been favourable. The Wall Street Journal on 18 February described the issue as a "phenomenal success".

The proceeds from the issue are being paid into our foreign currency reserves this week, following completion of all the formal documentation. However, as you know, the main purposes of the issue were to demonstrate our commitment to the development of the ecu and to strengthen London's leading position in the ecu bond market. The Treasury will be considering with the Bank in due course how far the issue has achieved the latter objective.

I am sending a copy of this minute to the Governor of the Bank of England: I am most grateful to the Bank for their skilful handling of this issue.

A handwritten signature in blue ink, appearing to be 'N.L.'.

[N.L.]

21 February 1991



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