

CAPITAL MARKET ISSUES IN THE UNITED KINGDOM

- 1 This notice supplements that issued by the Bank of England on 10 November 1980 and provides further guidance on the arrangements which the Bank wishes to see observed for new issues in the UK capital market.

Deep-discounted and indexed stocks

- 2 The Chancellor of the Exchequer announced on 25 June that, subject to the normal arrangements for obtaining timing consent from the Bank of England, companies are now free to issue deep-discounted (including zero coupon) stocks in sterling. They have for some time been free to issue indexed stocks in sterling. At the same time the Inland Revenue issued a statement clarifying the tax position of such stocks. The purpose of these announcements was to facilitate stock issues by companies, as an alternative source of finance to bank borrowing.
- 3 The procedure for obtaining timing consent from the Bank of England, which is required under the Control of Borrowing Order 1958 (as subsequently amended), is set out in the Bank's notice of 10 November 1980 (paragraphs 5 and 6). Deep-discounted and indexed issues will be brought into the new issues queue, which the Bank operates through the Government Broker. Requests for timing consent should in the first instance be directed to the Government Broker at Mullens & Co; and issues for which timing consent is granted will be assigned a date in the queue, which may not be altered without re-application for timing consent.

4 Subject to this requirement, deep-discounted and indexed issues may be made both by UK and by foreign companies. The Bank will regulate the size and frequency of such issues to avoid the risk of congestion in the market and to leave capacity for issues by UK companies. In administering the queue the Bank will have regard to the tax advantages that some foreign companies may enjoy over UK companies in relation to issues of this type by virtue of differences between UK and foreign regulations governing the tax treatment of such issues.

Since the intention of the Chancellor's announcement is to facilitate stock issues by companies, approval from H M Treasury will not for the time being be forthcoming for deep-discounted or indexed issues by local authorities. For the same reason, consent will not at present be given for such issues by other sovereign, parastatal or public sector borrowers. Consent for such borrowers to make conventional stock issues on a full-coupon, non-indexed basis will continue to be given subject to the requirements of the Bank's notice of 10 November 1980.

Sterling euro-bonds

6 In the Bank's notice of 10 November 1980, it was stated that the Bank did not at that stage consider it necessary to operate a queue for issues of sterling euro-bonds, since such issues appeared to have only a limited impact on the domestic market. It was indicated, however, that the Bank might wish to bring sterling euro-bonds within the queuing arrangements if they came to have an important impact on the domestic market.

7 Over the past two years the domestic sterling capital market and the sterling euro-bond market have tended to become more closely integrated; and there have been signs more recently that issues of sterling euro-bonds can attract domestic investment interest. The Bank considers that, in order to promote the development of the sterling capital market on an efficient and orderly basis, it would now be appropriate to take steps to ensure where necessary that sterling euro-bond issues are not a source of disturbance to issues in the domestic market. Accordingly, sterling euro-bond issues will henceforth be subject to the requirement, already applied to domestic market issues, that the consent of the Bank should be sought in advance for the timing of the issue. As with domestic market issues, requests for timing consent should in the first instance be directed to the Government Broker at Mullens & Co.

Access to the Gilt-Edged Market

- 8 The Bank's notice of 10 November 1980 recorded that it was a requirement for the admission of securities to the gilt-edged market that they should on issue be offered in their entirety for public subscription, unless the issue was £7 million or less in amount. The opportunity is taken in this notice to confirm that in June 1981, as was communicated to the market at the time, The Stock Exchange, with the agreement of the Bank, increased the limit of £7 million to £12 million.
- 9 In all other respects the Bank's notice of 10 November 1980 remains in effect. The Bank's Gilt-Edged Division stands ready to respond to questions on this and the earlier notice and to give guidance on other matters which may arise in relation to capital issues in the UK.

CAPITAL MARKET ISSUES IN THE UK

1 This notice provides guidance on the arrangements which the Bank of England wish to see observed for new issues in the UK capital market.

2 The ending of exchange control re-opened the sterling capital market to issues by foreign entities and promises to bring a significant expansion in international operations in the UK capital market. The Bank of England will be concerned to promote the development of the market on an efficient and orderly basis.

3 To this end, the Bank do not wish capital issues in sterling, including in principle those carrying a sterling option, to be made in markets outside the UK and will for this purpose, where necessary, seek the co-operation of overseas authorities. Foreign entities are, however, following the ending of exchange control, free to make issues in the UK capital market - both of debt and of equity - on the same basis as domestic entities. Moreover, both domestic and foreign borrowers are free to issue sterling euro-bonds (including floating-rate notes) without restriction on the use of the funds; and there is no restriction on the purchase of such securities by UK residents.

4 In order to promote the development of the UK capital market, the Bank consider that it may be helpful to give guidance from time to time on the arrangements which they wish to see observed in relation to new issues in the UK, including issues of sterling euro-bonds. Three aspects are covered in this notice.

TIMING CONSENT

5 New issues in sterling for amounts of £3 million or above are subject to timing consent by the Bank of England, under the Control of Borrowing Order 1958 (as subsequently amended). Foreign entities wishing to make such issues are thus, like domestic entities, required to seek the consent of the Bank of England in advance to the timing of the proposed issue. Requests for timing consent should in the first instance be directed to the Government Broker at Mullens & Co.

6 For new issues in sterling other than issues of sterling euro-bonds, the Bank operate, through the Government Broker, a new issues queue. Issues for which timing consent is granted will be assigned a date in the queue, which may not be altered without re-application for timing consent. In administering the queue the Bank have regard to the capacity of the market and to the need to maintain orderly arrangements for new issues.

7 The Bank do not at present consider it necessary to operate a queue for issues of sterling euro-bonds, nor for non-sterling issues in the UK market, since such issues appear at this stage to have only a limited impact on the domestic market. The Bank wish however to be in a position to monitor such issues and therefore ask that, in addition to the requirement for timing consent in paragraph 5 above to which sterling issues are subject, notification should be given as early as possible in advance to the Bank's Gilt-Edged Division of any proposed sterling euro-bond or foreign currency issues in the UK market, including those carrying a sterling option or a conversion option into sterling securities. In the case of issues in sterling,

where it appears that there may be a clash of dates between similar issues the Bank will seek to arrange discussions between the issuing houses to explore the possibilities for avoiding unnecessary disturbance to the market; but in general final decisions will be left to the respective houses. If such issues should come to have an important impact on the domestic market, the Bank may at that stage wish to bring them within the queuing arrangements set out in paragraph 6 above.

LEADERSHIP

8 In order that the impact of new issues on the sterling capital market may be adequately monitored, the Bank wish to see all capital issues in sterling, including those carrying a sterling option, led by a UK-based institution with the capacity in the UK to act as an issuing house. Foreign-owned institutions with such a capacity will be eligible to lead sterling issues if in the Bank's view there are reciprocal opportunities in their domestic capital markets for equivalent UK-owned institutions; but the Bank will for the present expect such issues to be co-led by a UK-owned institution with the capacity in the UK to act as an issuing house. In each case, the Bank will look to the UK-owned co-lead manager to ensure that the arrangements in paragraphs 5-7 above are observed. Foreign-owned institutions which do not meet the reciprocity requirement will be eligible to participate in a co-management position, but not as a leader or co-leader.

ACCESS TO THE GILT-EDGED MARKET

9 The gilt-edged market comprises those securities which are traded on the scales of minimum commissions set out in Appendix 39, Section A, to the Rules and Regulations of The Stock Exchange. The securities which currently trade in this sector are, in broad terms, British Government and Government-guaranteed securities, UK corporation and county stocks and bonds, the securities of certain UK public boards, securities issued by the IBRD and the IADB, Commonwealth Government and provincial securities, Commonwealth corporation stocks and certain Irish securities.

10 The Stock Exchange, with the agreement of the Bank, are prepared henceforth to consider extending admission to the gilt-edged market additionally to future issues of sterling stocks and bonds made in their own name by other overseas central governments and by other international institutions with which the UK is associated. Application for an issue to be admitted to the gilt-edged market should be made in advance to the Quotations Department of The Stock Exchange. It will continue to be a requirement of such admission that the securities should on issue be offered in their entirety for public subscription, unless the issue is £7 million or less in amount. In addition to the requirements for timing consent in paragraphs 5-7 above, the Bank will also wish to be notified in advance of the terms of any issue to be made in the gilt-edged market.

11 The Bank's Gilt-Edged Division stands ready to respond to questions on this notice and to give guidance on other matters which may arise in relation to capital issues in the UK.

Bank of England
10 November 1980