Euromoney Encyclopedia of Debt Finance

Second Edition

Edited by

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EUROMONEY BOOKS

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Preface

Since the first edition of this book was published in 2006, the tectonic plates of finance have ground together inexorably and the debt markets today bear little resemblance to those of pre-2007. The global financial crisis started in 2007 with the gradual erosion of confidence and losses in the US sub-prime market leading ultimately, in 2008, to the collapse of Lehman Brothers. This, in turn, led to a loss of liquidity in most markets as those institutions having liquid assets chose to hold on to them in the uncertain world where counter-party risk remained largely unresolved due to a lack of portfolio transparency. In late 2008 and early 2009, the window at central banks became the sole source of funding for many banks and in some cases, government intervention and support were essential in order to avoid failure of some leading well-known banks. After a short hiatus, it became evident that transferring the debts of banks to national accounts could seriously affect the ability of the sovereigns concerned to fund the liabilities. This triggered another response from investors who started looking at the overall ability of sovereign nations to finance their debt and the realisation, particularly in the eurozone, that some of the smaller countries were vulnerable. The so-called 'PIGS', Portugal, Ireland, Greece and Spain, were the first to fall under the gaze of the investors and the rating agencies, and a combination of IMF and ECB programmes have been introduced along with austerity programmes designed to reduce the overall level of national debt for Portugal, Ireland and Greece. Austerity programmes to tackle the level of debt have also been introduced in other European countries notably the UK, Italy, Spain and France. At the time of writing the US has just been down-graded by one rating agency from AAA to AA+, not so much because of the inability of the US to service its debt, but more the lack of political will to tackle the structural reforms required to reduce it. Such a down-grading would have been unthinkable a year or two ago.

Despite these significant events, the instruments that have provided the foundation of the debt markets over the years have remained essentially the same. However, the conditions attached to them, and the capital required to support them, are now radically different to the pre-2007 period. The purpose of this book is to provide the reader with an up-to-date vision of these debt products explaining the nature of the instrument and providing some examples of how they can be applied to commercial situations.

The changes in the debt markets over the last few years has forced borrowers to be more flexible on the terms of their financings and to seek a wider variety of investors. There is also a slow revival of investors prepared to accept a greater variety of risks and instruments. For example, pre-2007, non-bank financial institutions became active buyers of loans, particularly high-yielding loans, moving away from the traditional debt capital markets. This appetite virtually disappeared for the period 2008–2009 and it is only in 2011 that it has started to become really significant again.

It is apparent, therefore, that individuals working in treasury departments of borrowers and the bankers providing them with ideas on how to raise funds most cost effectively need to have in-depth knowledge of the entire spectrum of debt products. This means having a comprehensive understanding of the short-term markets such as commercial paper, the medium-term highly flexible loan markets, the long-term US private placement market, the medium-term note (MTN) and bond markets, the covered bond markets (for financial institutions), the convertible market and ways to use *sukuk* structures effectively. Each of these markets is described in the first part of this encyclopedia where an outline of each product is given, its uses for borrowers and investors specified and the current leaders in the field identified, where possible, by way of league tables. The risks of using these products are also evaluated thereby bringing the reader up-to-speed on the opportunities available from each market, permitting them to assess the relevance of the products for their situation. In Part 2 of this encyclopedia, the reader is provided with some examples of the commercial application of these instruments.

The genesis for the first edition came from discussions I had with Samir Assaf at HSBC. We were discussing the increasing demands being placed on the front office where bankers had historically specialised in one area of the debt capital markets rather than the full range. On the other hand, borrowers, faced with demands for lowest-cost funding from their executive management boards, expected their bankers to be capable of discussing the full range of debt product alternatives relevant to their situation and credit standing. Bankers, being required to meet the needs of their clients in this way, have had to expand their knowledge base. This effort can be supported by this comprehensive book on the debt capital markets.

Sanjeevi Perera, Managing Editor at Euromoney Books has worked tirelessly with me to assemble the world class set of contributors that have provided the content for this book. A key criterion was to choose individuals from institutions whose position in their respective markets makes them *de facto* leaders in their field. They have shared their knowledge and experience for the benefit of the readers and it is for this reason that this book will be essential reading for all who wish to expand their knowledge of the debt capital markets.

Tony Rhodes
General Editor
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About the editor

Tony Rhodes has been working as an independent consultant since 2004 specialising in directing and delivering training seminars and workshops[1] in syndicated lending and advising clients on business issues related to debt capital markets.

His last full-time employment was at HSBC which he joined in 1998 as Global Head of Syndicated Finance responsible for primary and secondary loan syndication markets. Before this, Tony worked at Credit Suisse for nearly three years where he was responsible for primary and secondary loan syndication in Europe, Middle East and Africa, having previously spent 15 years in a variety of positions in debt capital markets at Bank of America International Limited (BAIL).

Tony started his career in the project finance unit of Shell International Petroleum Company, being based first in London, then in Paris. He then worked for a Paris-based consultancy which specialised in financing projects in the Middle East before moving to Liverpool, England, to join the Treasury Department at Ocean Transport & Trading Limited. His final position prior to joining BAIL was in the project finance unit at Lloyds Bank International Limited.

Tony read Natural Sciences and Business Management Studies at Corpus Christi College, Cambridge, and holds a Master of Arts degree. He has been a regular speaker at conferences on syndicated lending, has been course director of the London-based Euromoney training seminar entitled 'Syndicated Loans for Practitioners' since its inception in 1990, is the Author and General Editor of the book (now in its Fifth Edition) published by Euromoney Publications entitled *Syndicated Lending – Practice and Documentation* and was the General Editor of the first edition of the *Euromoney Encyclopedia of Debt Instruments*.

Tony was one of the founding directors of the Loan Market Association (LMA) in 1996.

Tony is a liveryman at the Worshipful Company of International Bankers and works in the Schools Working Group which is part of the Charities and Education Committee.

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1 Training courses have been directed and delivered to clients in London, Amsterdam, Hamburg, Berlin, Prague, Vienna, Warsaw, Moscow, Istanbul, Cairo, Dubai, Qatar, Kuwait, Jeddah, Johannesburg, Hong Kong, Singapore and Sydney.