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INTERNATIONAL FINANCING REVIEW **SPECIAL REPORT**

JUNE 2015

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TOP 250 BORROWERS

Shifting sands





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Foreword

TOP 250 BORROWERS

SHIFTING SANDS

Credit markets posted yet another year of storming supply, a scene played out in an unnatural landscape constantly reshaped by shifting sands.

On the one hand, the US called time on its quantitative easing bond-buying programme; but, on the other, the European Central Bank scrambled up the dunes to proclaim an initiative of its own. In the QE stakes, Frankfurt simply replaced Washington.

Funding conditions remain benign as the buy-side and sell-side alike grapple with similar circumstances. While the former continues searching for incremental returns in low-yield shallow soil, the latter enjoys mixed fortunes, depending on which end of the ratings spectrum they are.

For higher beta borrowers, demand assumed significant proportions, the flip side of the coin being that some highly rated issuers looking to the euro market in particular found spreads and yields so compressed that they began to struggle to find willing buyers of their offerings.

Even before the ECB announced its well-flagged €1.1trn QE programme in January, things were moving apace in Europe.

Government bond yields then dropped to fresh lows, turning negative in a number of cases, and creating an element of confusion among investors historically programmed to minimise risk by buying the highest rated assets.

The situation on the other side of the Atlantic threw up a similar scenario, with rates not assuming the velocity of upward trajectory many had assumed.

Clearly, a fresh approach was required, and the best part of €180bn of corporate debt in the European market in the year to end-May demonstrated that buyers were not averse to broadening their horizons, given that it represented a 31% increase on the previous year.

And, naturally, the juicier the yield the better, as evidenced by a 50% increase in corporate hybrid issuance. Volumes in the high-yield market also rose in lock-step.

For investors, there was little alternative to a risk-on stance, something that could be taken as QE efficacy as money moved down the funding food chain.

But artificial situations are just that, and it was clear something had to give. A sandstorm

ensued, with yield levels reversing from ultra-low to just low.

Nerves in bond markets that have revived fears of a crisis have been blamed by traders on liquidity distortions. Ample monetary liquidity coexists with a shortage of trading liquidity, constraining the market's ability to absorb shocks and further exacerbating the risk of volatility.

One cause of liquidity problems is regulatory change to ensure lenders boost levels of risk-weighted assets. Since 2008 regulators have forced banks to pile capital up like grain in a silo, most recently through strictures about total-loss absorbing capacity on globally systemically important banks, or G-Sibs from the Basel-based Financial Stability Board. Compounding this is regulatory one-upmanship. Just 12 days after TLAC's introduction, the Europeans again unveiled their own draft rules, MREL. Two sets of regulations, both building sandcastles.

Indeed, regulatory anxiety is everywhere. US authorities have grown jumpy about the use of covenant-lite leveraged loans, and China has been stacking up rules to tackle provincial debt, spawning a market in municipal bonds in conditions where a default seems likely.

The leveraged loan market demonstrates how, historically, the causal chain of volatility can so often be traced archeologically back to the US.

For example, leveraged buyouts – a homespun symbol of the pre-crisis boom – are back with a vengeance. Leveraged loans styled on those across the pond are now growing popular in Europe as bank lending loses its appeal and the region develops an appetite for takeovers.

The Europeans are also being lured by another American mirage, proposing a capital markets union to shift the burden of financing away from banks to DCM.

The financing of M&A through leveraged loans negotiated in centres such as Hong Kong is increasingly copying US architecture, and China's muni market also attests to its taste for the American financial flavours that, like bubble gum, have gained such global appeal.

When the latest storm subsides and the dust settles, the landscape will look both reassuringly familiar – and yet eerily different.



COVER

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Tourists ride camels on the Mingsha Sand Dunes during a visit to Crescent Moon Spring on the outskirts of Dunhuang, Gansu province

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*Tourists ride camels on the Mingsha Sand
Dunes during a visit to Crescent Moon Spring
on the outskirts of Dunhuang, Gansu province*



- 04 Methodology
- 06 IFR Top 250 Borrowers
- 13 Top 50 bond, loan and most frequent borrowers
- 16 League tables
- 76 A-Z index

FEATURES

- 24 **Burden of abundance**
Lack of liquidity in the bond market is being aggravated by ever-tighter banking regulations.
- 26 **Finding common ground**
Thanks to the Capital Markets Union, Europe is heading down the right path in stimulating corporate bonds.
- 30 **Shoots and scores**
New issuance of Green bonds is lagging over-enthusiastic targets set last year but the market continues to grow in stature.
- 34 **Still not full**
Regulatory change means a never-ending process of recapitalisation for banks.
- 36 **Lame duck learns to fly**
The ECB's quantitative easing programme had the desired effect, diverting investors into riskier assets.
- 38 **On the boil**
Regulatory change in 2014 involving Formosa bonds has created an issuance boom.
- 40 **Shadowlands**
China attempts to bring desperately needed transparency to opaque local government financing.
- 43 **Showing its brilliance**
China's new AIIB multilateral bank is a symbol of a bold new foreign policy.
- 46 **Balancing acts**
Leveraged loans are back, but this time regulators are keen to curb bankers' enthusiasm.
- 48 **The centre holds just fine**
Brazil has staged a comeback after an eight-month absence from the bond market.
- 50 **Full steam ahead**
Boom time for acquisition financing.
- 52 **Model in search of catwalk**
Authorities must find a way to entice investors to private placements.
- 54 **Repetitive crane injury**
Thanks to a need for yield, investors are chasing project bonds.



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An exceptional track record in financing sound long-term investment:
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56



70



72

PROFILES

56 Changing the rules

Freddie Mac's credit risk transfer programme may just help it to reduce its dependence on the US taxpayer.

58 Behemoth trying to dance

The **European Stability Mechanism/European Financial Stability Facility** is a curious institution. Formed in the early months of the eurozone debt crisis to provide financing to unstable member states, it can often, as well as big, be almost uninspiringly boring.

60 Finding the right dosage

Bayer is no stranger to the bond market and has hooked many a juicy worm. Last year was no exception, with banks eager to take any sliver of yield.

62 Shop till you drop

The separation of **Westfield** into two distinct units has been welcomed by fixed-income investors but will its credit metrics survive a commercial real estate downturn?

64 Opportunity knocks

Amid historic reforms to Mexico's energy sector, oil giant **Pemex** has been more active than ever in the capital markets as it looks to diversify its financing strategy and prepare for a hike in US rates.

66 Far-reaching ambitions

Altice-backed **Numericable** gave a master-class in how to manage a banking syndicate when it clocked up a record high-yield bond offering to fund its US\$23.3bn acquisition of SFR.

68 Gargantuan reputation

Sinopec earned its chops this year with a record-breaking dual tranche. But was this as good as it gets as China looks to reform its bloated SOEs? The prospect of being broken up heralds a new issuance landscape for the China state-owned oil industry.

70 Set in tone

With a US\$200bn capital return programme to fund by 2017, **Apple** has completed this year's funding by looking beyond the domestic market.

72 Once bitten, twice lucky

AbbVie's US\$16.7bn M&A financing for its acquisition of Pharmacyclics represented a triumph following the cancellation of an earlier deal after the US tightened up on inversion trades.

74 The parent trap

European concerns about systemically important banks have raised the cost of borrowing for **Credit Suisse** as it borrows both from a holdco and an opco.

METHODOLOGY

The IFR Top 250 Borrowers ranking includes all eligible Thomson Reuters league table borrowings in syndicated loans, international bonds, equity-linked bonds and securitisations from May 1 2014 to April 30 2015. The rankings reflect the activity of borrowers at the parent level. In some cases, where the overwhelming majority of the borrowing was conducted by an entity that was not the parent, the name of the relevant subsidiary has been used. Borrowing by private equity companies has not been rolled up to the parent level, but where possible, has been attributed to the portfolio company.

For structured finance deals using separate special purpose vehicles, credit is attributed to the relevant parent group of the originator of the underlying assets.

An exception to the rule of rolling up to the parent level has been made for sovereign borrowers: agency, regional authority and state-owned corporate borrowing has generally been shown separately, regardless of the degree of government liability for the debt involved. Sovereign borrowings include only syndicated capital markets transactions, not borrowing through auctions of treasuries or other similar methods.

Transactions involving financial or corporate borrowers in which the debt is explicitly guaranteed by a government will be classified as agency debt. Issues that do not have an explicit government guarantee will not be credited as agency debt, irrespective of the stake owned by the state.

Loans bookrunner league tables do not include club transactions, but the corresponding borrower tables do. A new table has been added on page 17: Top 10 CoCo Bond Issuers.

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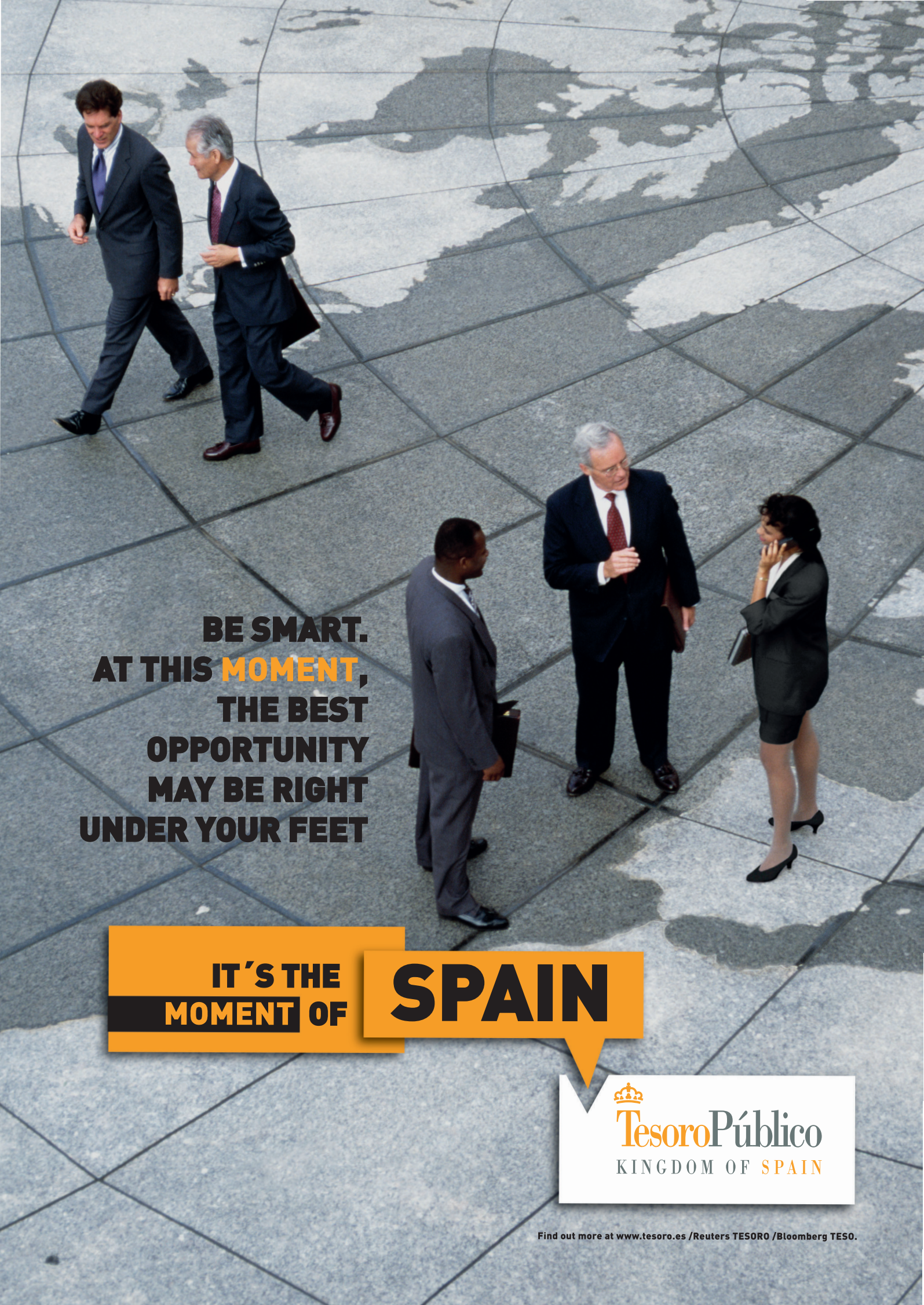
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The Bridge at Alcántara. Built 104 A.D. (Spain).

TOP 250 INTERNATIONAL BORROWERS BY VOLUME – MAY 1 2014 TO APRIL 30 2015

(SEE P76 FOR ALPHABETICAL LIST)

Ranking	Borrower	Amount (US\$m)	No of deals	Issuer type	Country of origin
1	European Investment Bank	66,021.40	188	Supranational	Luxembourg
2	Actavis	64,681.80	5	Corporate	US
3	KfW	54,745.40	91	Agency	Germany
4	Kingdom of Spain	49,483.60	8	Sovereign	Spain
5	Italian Republic	49,379.20	9	Sovereign	Italy
6	JP Morgan Chase & Co	41,567.80	45	Financial	US
7	AT&T	41,428.10	9	Corporate	US
8	Federal National Mortgage Association	37,797.10	25	Agency	US
9	Federal Home Loan Mortgage Corporation	37,271.30	19	Agency	US
10	Banco Santander	36,837.40	46	Financial	Spain
11	Medtronic	36,718.30	3	Corporate	US
12	Morgan Stanley	35,243.50	42	Financial	US
13	International Bank for Reconstruction and Development	35,016.80	74	Supranational	US
14	Groupe BPCE	34,090.90	66	Financial	France
15	Deutsche Bank	33,826.00	36	Financial	Germany
16	Westfield	33,493.00	7	Corporate	Australia
17	United Kingdom of Great Britain and Northern Ireland	32,430.50	7	Sovereign	UK
18	Canada Mortgage and Housing Corporation	30,475.20	8	Agency	Canada
19	Toyota Motor Corporation	30,196.50	35	Corporate	Japan
20	Citigroup	29,820.40	36	Financial	US
21	Wells Fargo	29,702.70	22	Financial	US
22	Goldman Sachs	29,071.70	26	Financial	US
23	Ford Motor Company	28,897.60	16	Corporate	US
24	General Motors	27,660.70	12	Corporate	US
25	Bayer	27,623.30	5	Corporate	Germany
26	European Financial Stability Facility	27,136.00	8	Supranational	Luxembourg
27	Credit Suisse	27,084.70	24	Financial	Switzerland
28	Porsche Automobil Holding	26,092.30	39	Corporate	Germany
29	Rabobank	26,082.10	58	Financial	Netherlands
30	Verizon Communications	25,183.50	6	Corporate	US
31	Dexia	25,150.90	51	Financial	Belgium
32	Merck & Co	25,128.00	4	Corporate	US
33	Petroleos Mexicanos	23,430.70	12	Corporate	Mexico
34	Glencore	22,396.80	6	Corporate	Switzerland
35	HSBC	22,384.70	16	Financial	UK
36	ZF Friedrichshafen	21,799.20	3	Corporate	Germany
37	Caisse d'Amortissement de la Dette Sociale	21,190.40	13	Agency	France
38	AbbVie	21,000.00	2	Corporate	US
39	Federal Home Loan Banks	20,917.10	37	Agency	US
40	Barclays	20,553.10	18	Financial	UK
41	Toronto-Dominion Bank	20,144.70	20	Financial	Canada
42	Bank of America	19,962.40	17	Financial	US
43	Oracle	19,944.20	2	Corporate	US
44	Credit Agricole	19,837.20	25	Financial	France
45	Sky	19,782.50	6	Corporate	UK
46	Zimmer Holdings	19,638.20	2	Corporate	US
47	Kinder Morgan	19,533.80	6	Corporate	US
48	GE Capital	19,389.50	15	Corporate	US
49	Exxon Mobil	19,352.50	9	Corporate	US
50	Inter-American Development Bank	19,305.60	63	Supranational	US
51	Portuguese Republic	18,517.20	4	Sovereign	Portugal
52	Commonwealth Bank of Australia	18,137.00	26	Financial	Australia
53	State of North Rhine-Westphalia	18,048.30	55	Region	Germany
54	Lloyds Banking Group	17,898.90	30	Financial	UK
55	British American Tobacco	17,831.70	5	Corporate	UK
56	Wal-Mart	17,810.40	2	Corporate	US
57	Merck KGaA	17,447.70	2	Corporate	Germany
58	Caterpillar	17,259.20	11	Corporate	US
59	Bank Nederlandse Gemeenten	17,286.00	46	Agency	Netherlands
60	Johnson & Johnson	17,003.70	5	Corporate	US
61	Itochu	16,652.90	8	Corporate	Japan
62	Total	16,601.80	14	Corporate	France



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TOP 250 INTERNATIONAL BORROWERS BY VOLUME – MAY 1 2014 TO APRIL 30 2015

Ranking	Borrower	Amount (US\$m)	No of deals	Issuer type	Country of origin
63	Becton Dickinson	16,300.00	3	Corporate	US
64	Valeant Pharmaceuticals	16,224.50	3	Corporate	Canada
65	ING	16,144.90	22	Financial	Netherlands
66	Fiat	15,882.30	17	Corporate	Italy
67	Honda Motor Co	15,755.30	10	Corporate	Japan
68	Asian Development Bank	15,722.10	24	Supranational	Philippines
69	National Australia Bank	15,720.40	26	Financial	Australia
70	ConocoPhillips	15,493.70	3	Corporate	US
71	Depository Trust & Clearing Corporation	15,365.00	1	Corporate	US
72	Walgreens Boots Alliance	15,326.30	3	Corporate	US
73	Exelon	15,155.90	7	Corporate	US
74	Sanofi-Aventis	14,815.60	4	Corporate	France
75	Landwirtschaftliche Rentenbank	14,778.00	51	Agency	Germany
76	Altice	14,531.30	7	Corporate	Luxembourg
77	Enbridge	14,468.40	11	Corporate	Canada
78	SAP	14,376.00	3	Corporate	Germany
79	IBM	14,347.80	4	Corporate	US
80	Kingdom of Belgium	14,258.20	7	Sovereign	Belgium
81	Industrial & Commercial Bank of China	14,241.50	22	Financial	China
82	Telecom Italia	14,238.90	5	Corporate	Italy
83	FMS Wertmanagement	14,113.30	30	Agency	Germany
84	Equinix	13,824.80	2	Corporate	US
85	Telefonica	13,744.60	9	Corporate	Spain
86	Nederlandse Waterschapsbank	13,542.20	27	Agency	Netherlands
87	Kingdom of Sweden	13,202.00	7	Sovereign	Sweden
88	Republic of Austria	13,195.30	3	Sovereign	Austria
89	Imperial Tobacco	12,966.60	1	Corporate	UK
90	Scotiabank	12,917.90	17	Financial	Canada
91	Saudi Arabian Oil Company	12,868.90	3	Corporate	Saudi Arabia
92	Tyson Foods	12,816.30	4	Corporate	US
93	Mitsubishi UFJ Financial	12,770.80	10	Financial	Japan
94	GDF Suez	12,765.40	12	Corporate	France
95	Trafigura	12,656.30	8	Corporate	Netherlands
96	Royal Dutch Shell	12,618.40	4	Corporate	Netherlands
97	Bank of China	12,612.40	13	Financial	China
98	Westpac	12,562.20	22	Financial	Australia
99	Nationwide Building Society	12,499.10	11	Financial	UK
100	Cantor Commercial Real Estate	12,469.50	12	Corporate	US
101	Enel	12,426.00	2	Corporate	Italy
102	Nestle	12,414.40	7	Corporate	Switzerland
103	BP	12,365.10	6	Corporate	UK
104	Standard Chartered	12,300.00	6	Financial	UK
105	Coca-Cola	12,084.90	2	Corporate	US
106	UBS	11,836.10	3	Financial	Switzerland
107	Vitol	11,800.50	4	Corporate	Switzerland
108	UniCredit	11,659.10	18	Financial	Italy
109	BNP Paribas	11,601.80	22	Financial	France
110	Koch Industries	11,498.90	7	Corporate	US
111	AIG	11,445.20	9	Financial	US
112	Vodafone	11,417.00	5	Corporate	UK
113	Societe Generale	11,409.90	18	Financial	France
114	Berkshire Hathaway	11,352.00	10	Corporate	US
115	Apple	11,328.90	3	Corporate	US
116	ChevronTexaco	11,307.80	7	Corporate	US
117	Intesa Sanpaolo	11,307.70	11	Financial	Italy
118	Schaeffler Technologies	11,290.80	6	Corporate	Germany
119	Republic of Finland	11,245.60	7	Sovereign	Finland
120	Anadarko Petroleum	11,244.80	3	Corporate	US
121	Daimler	11,202.90	24	Corporate	Germany
122	NRW.Bank	11,144.90	29	Agency	Germany
123	MetLife	11,137.00	12	Financial	US
124	Royal Bank of Canada	11,101.80	10	Financial	Canada
125	BMW	11,083.80	23	Corporate	Germany

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TOP 250 INTERNATIONAL BORROWERS BY VOLUME – MAY 1 2014 TO APRIL 30 2015

Ranking	Borrower	Amount (US\$m)	No of deals	Issuer type	Country of origin
126	Reynolds American	11,000.00	2	Corporate	US
127	Australia and New Zealand Banking Group	10,993.80	20	Financial	Australia
128	Alibaba	10,975.60	2	Corporate	China
129	Deere & Co	10,747.90	5	Corporate	US
130	Microsoft	10,679.90	1	Corporate	US
131	Deutsche Annington Immobiliengruppe	10,670.90	4	Corporate	Germany
132	Tata Steel	10,650.70	5	Corporate	India
133	Groupe Credit Mutuel	10,587.90	31	Financial	France
134	PepsiCo	10,539.70	4	Corporate	US
135	Amgen	10,479.20	3	Corporate	US
136	United Mexican States	10,401.50	7	Sovereign	Mexico
137	Hesse	10,392.20	27	Region	Germany
138	UNEDIC	10,335.30	9	Agency	France
139	Hillshire Brands	10,255.80	1	Corporate	US
140	GTECH	10,212.00	4	Corporate	US
141	Nordea Bank	10,170.50	18	Financial	Sweden
142	Freeport-McMoRan	10,042.50	3	Corporate	US
143	Occidental Petroleum	10,000.00	3	Corporate	US
144	CME	9,998.60	3	Corporate	US
145	Express Scripts	9,990.10	2	Corporate	US
146	Danske Bank	9,983.20	19	Financial	Denmark
147	EDP	9,907.00	6	Corporate	Portugal
148	Williams	9,887.60	4	Corporate	US
149	Burger King	9,500.00	2	Corporate	US
150	Volvo	9,431.90	10	Corporate	Sweden
151	Ireland	9,368.00	2	Sovereign	Ireland
152	Dufry	9,364.40	5	Corporate	Switzerland
153	Macquarie	9,249.10	23	Financial	Australia
154	BT	9,224.10	3	Corporate	UK
155	European Stability Mechanism	9,217.90	2	Supranational	Luxembourg
156	Berlin	9,215.80	47	Region	Germany
157	China Petroleum & Chemical Corporation	9,208.30	7	Corporate	China
158	Iberdrola	9,199.10	9	Corporate	Spain
159	International Finance Corporation	9,192.60	36	Supranational	US
160	Monsanto	9,142.40	5	Corporate	US
161	JM Smucker	9,132.50	3	Corporate	US
162	Hutchison Whampoa	9,106.40	7	Corporate	Hong Kong
163	Carrefour	9,099.60	8	Corporate	France
164	US Bancorp	9,091.20	5	Financial	US
165	ArcelorMittal	9,019.20	5	Corporate	Luxembourg
166	Dollar Tree	9,000.00	1	Corporate	US
167	BlackRock	8,965.70	4	Financial	US
168	APA	8,961.00	4	Corporate	Australia
169	PetSmart	8,850.00	2	Corporate	US
170	Roche	8,803.90	5	Corporate	Switzerland
171	DaVita	8,750.00	3	Corporate	US
172	BHP	8,639.00	3	Corporate	Australia
173	Halliburton	8,600.00	1	Corporate	US
174	Vinci	8,539.50	5	Corporate	France
175	VimpelCom	8,522.70	4	Corporate	Netherlands
176	Yalong River Hydropower Development	8,464.70	1	Corporate	China
177	NextEra Energy	8,348.90	7	Corporate	US
178	Duke Power	8,289.80	3	Corporate	US
179	Hyundai Motor Company	8,149.70	8	Corporate	South Korea
180	Bank of New York Mellon	8,121.10	8	Financial	US
181	Ball	8,087.00	1	Corporate	US
182	Liberty Global	7,999.20	8	Corporate	UK
183	Amazon	7,953.00	2	Corporate	US
184	Energy Transfer Partners	7,950.00	5	Corporate	US
185	CBS	7,925.70	4	Corporate	US
186	Sumitomo Mitsui Financial Group	7,877.70	11	Corporate	Japan
187	Mitsubishi	7,815.90	15	Corporate	Japan
188	CRH	7,775.30	5	Corporate	Ireland



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TOP 250 INTERNATIONAL BORROWERS BY VOLUME – MAY 1 2014 TO APRIL 30 2015

Ranking	Borrower	Amount (US\$m)	No of deals	Issuer type	Country of origin
189	Laboratory Corp of America	7,740.70	4	Corporate	US
190	Kommunalbanken	7,722.40	37	Agency	Norway
191	Tesco	7,670.70	3	Corporate	UK
192	Siemens	7,612.70	3	Corporate	Germany
193	Caisse Centrale du Credit Immobilier de France	7,609.90	8	Financial	France
194	Export-Import Bank of Korea	7,579.60	143	Agency	South Korea
195	Caliber Funding	7,532.20	14	Financial	US
196	Province of Ontario	7,509.00	8	Region	Canada
197	Abbott Laboratories	7,495.30	2	Corporate	US
198	The Dow Chemical Company	7,493.80	3	Corporate	US
199	Origin Energy	7,387.50	2	Corporate	Australia
200	Lone Star Funds	7,386.10	9	Financial	US
201	Petroleum Nasional Berhad	7,382.70	5	Corporate	Malaysia
202	Rite Aid	7,300.00	3	Corporate	US
203	Landesbank Baden-Wuerttemberg	7,283.90	13	Financial	Germany
204	China Minmetals	7,278.30	2	Corporate	China
205	Time Warner	7,242.60	3	Corporate	US
206	Der Sparkassen- und Giroverband Hesse-Thüringen	7,230.40	12	Financial	Germany
207	Statoil	7,219.30	2	Corporate	Norway
208	Southwestern Energy	7,196.80	2	Corporate	US
209	American Tower	7,196.20	5	Corporate	US
210	ACS	7,195.80	9	Corporate	Spain
211	Suncor Energy	7,182.80	3	Corporate	Canada
212	Philip Morris	7,160.50	4	Corporate	US
213	Renault	7,141.20	15	Corporate	France
214	Eiffage	6,964.30	4	Corporate	France
215	Cassa Depositi e Prestiti	6,901.90	9	Agency	Italy
216	Argentine Republic	6,817.30	2	Sovereign	Argentina
217	Agence Francaise de Developpement	6,782.60	8	Agency	France
218	Energy Future	6,770.80	4	Corporate	US
219	COFCO	6,755.90	4	Corporate	China
220	Prudential Financial	6,738.20	6	Financial	US
221	Publicis	6,698.80	3	Corporate	France
222	Oil and Natural Gas	6,602.90	4	Corporate	India
223	Province of Quebec	6,600.60	10	Region	Canada
224	RWE	6,592.80	9	Corporate	Germany
225	FGP Topco	6,560.60	11	Corporate	UK
226	Petroleos de Venezuela	6,550.00	2	Corporate	Venezuela
227	Alcoa	6,532.60	3	Corporate	US
228	Boeing	6,513.90	3	Corporate	US
229	Illinois Tool Works	6,513.10	4	Corporate	US
230	Baden-Wuerttemberg	6,502.10	13	Region	Germany
231	China National Offshore Oil	6,493.50	10	Corporate	China
232	Dominion Resources	6,481.40	5	Corporate	US
233	American Express	6,470.30	7	Financial	US
234	SNC-Lavalin	6,464.90	2	Corporate	Canada
235	AP Moller-Maersk	6,346.80	2	Corporate	Denmark
236	Cargill	6,306.00	4	Corporate	US
237	United Technologies	6,302.80	2	Corporate	US
238	Svenska Handelsbanken	6,283.50	10	Financial	Sweden
239	Aecom Technology Corp	6,262.50	2	Corporate	US
240	Hess	6,226.50	5	Corporate	US
241	Dynegy	6,220.40	3	Corporate	US
242	Charter Communications	6,200.00	3	Corporate	US
243	International Petroleum Investment Company	6,186.40	4	Corporate	UAE
244	Fomento de Construcciones	6,164.10	1	Corporate	Spain
245	America Movil	6,146.30	6	Corporate	Mexico
246	MacAndrews & Forbes	6,144.00	6	Corporate	US
247	Fresenius Medical Care	6,143.80	4	Corporate	Germany
248	Swedbank	6,084.20	9	Financial	Sweden
249	Perrigo	6,028.60	2	Corporate	Ireland
250	Deutsche Borse	6,000.00	2	Corporate	Germany
	Industry Total	8,787,648.20	16,862		

TOP 50 BOND ISSUERS

Borrower	Number of deals	Amount US\$(m)
1 EIB	188	66,021.4
2 KfW	91	54,745.4
3 Spain	8	49,483.6
4 Italy	9	49,379.2
5 JP Morgan	41	40,737.6
6 Santander	46	36,837.4
7 World Bank	74	35,016.8
8 Morgan Stanley	38	34,520.9
9 BPCE	60	32,408.1
10 UK	7	32,430.5
11 AT&T	8	32,273.1
12 Fannie Mae	14	31,904.2
13 Canada Housing Trust No. 1	8	30,475.2
14 Wells Fargo	21	29,455.7
15 Deutsche Bank	32	29,093.4
16 Citigroup	33	28,902.7
17 EFSF	8	27,136.0
18 Goldman Sachs	23	27,134.3
19 Credit Suisse	24	27,084.7
20 Rabobank	58	26,082.0
21 Dexia	51	25,150.9
22 Actavis	2	24,131.8
23 HSBC	15	21,984.7
24 Freddie Mac	10	21,243.0
25 CADES	13	21,190.4
26 FHL Banks	37	20,917.1
27 Barclays	18	20,553.1
28 TD Bank	20	20,144.7
29 Oracle	2	19,944.2
30 BofA Merrill	15	19,922.4
31 Credit Agricole	24	19,769.2
32 IDB	63	19,305.6
33 Portugal	4	18,517.2
34 North Rhine-Westphalia	55	18,048.3
35 Lloyds	28	17,386.3
36 BNG	46	17,286.0
37 CBA	23	17,200.6
38 Medtronic	1	16,918.3
39 Total	13	16,351.8
40 GE Capital	10	16,280.7
41 ING	21	15,947.3
42 ADB	24	15,722.1
43 NAB	26	15,720.4
44 General Motors	11	15,160.7
45 Rentenbank	51	14,778.0
46 Toyota	28	14,473.8
47 Belgium	7	14,258.3
48 FMS Wertmanagement	30	14,113.3
49 Verizon	4	13,883.5
50 Ford	13	13,852.5
Market total	6,414	4,098,905.9

Source: Thomson Reuters

TOP 50 LOAN BORROWERS

Borrower	Number of deals	Amount US\$(m)
1 Actavis	3	40,550.0
2 Westfield	2	26,457.1
3 AbbVie	2	21,000.0
4 Medtronic	2	19,800.0
5 Wal-Mart	1	17,300.0
6 Itochu	8	16,652.9
7 Glencore	2	16,605.0
8 ZF Friedrichshafen	1	15,926.6
9 Toyota	7	15,723.1
10 Merck KGaA	1	15,600.0
11 DTC	1	15,365.0
12 Ford	3	15,045.1
13 Exelon	6	14,406.0
14 Bayer	1	14,200.0
15 Merck & Co	2	14,000.0
16 Equinix	2	13,824.8
17 Johnson & Johnson	3	13,675.0
18 British American Tobacco	3	13,571.9
19 Imperial Tobacco	1	12,966.6
20 Aramco	3	12,868.9
21 ConocoPhillips	2	12,500.0
22 General Motors	1	12,500.0
23 Trafigura	6	12,098.5
24 Zimmer Holdings	1	12,010.0
25 Enbridge	7	11,936.3
26 Vitol	4	11,800.5
27 Kinder Morgan	3	11,400.0
28 Verizon	2	11,300.0
29 Sky	1	11,192.8
30 Reynolds American	2	11,000.0
31 Sanofi-Aventis	3	10,895.6
32 Enel	1	10,764.0
33 Caterpillar	2	10,673.0
34 Nestle	1	10,320.9
35 Hillshire Brands	1	10,255.8
36 GTECH	4	10,212.0
37 Becton Dickinson	2	10,100.0
38 Exxon Mobil	6	10,100.0
39 Anadarko	2	10,000.0
40 IBM	1	10,000.0
41 Honda	5	9,961.3
42 Pemex	6	9,656.0
43 Koch Industries	6	9,650.0
44 Tyson Foods	3	9,572.8
45 Burger King	2	9,500.0
46 Telecom Italia	2	9,403.0
47 CME	2	9,250.0
48 AT&T	1	9,155.0
49 Tata Steel	4	9,150.7
50 SAP	1	9,045.1
Market total	10,448	4,688,742.3

Source: Thomson Reuters

TOP 50 MOST FREQUENT BORROWERS

Borrower	Number of deals	Amount US\$(m)
1 EIB	188	66,021.40
2 Korea Exim	143	7,579.60
3 KfW	91	54,745.40
4 World Bank	74	35,016.80
5 BPCE	66	34,090.90
6 IDB	63	19,305.60
7 Rabobank	58	26,082.10
8 North Rhine-Westphalia	55	18,048.30
9 Dexia	51	25,150.90
=9 Rentenbank	51	14,778.00
11 Berlin	47	9,215.80
12 Santander	46	36,837.40
=12 BNG	46	17,286.00
14 JP Morgan	45	41,567.80
15 Morgan Stanley	42	35,243.50
16 Porsche	39	26,092.30
17 FHLBanks	37	20,917.10
=17 Kommunalbanken	37	7,722.40
19 Deutsche Bank	36	33,826.00
=19 Citigroup	36	29,820.40
=19 IFC	36	9,192.60
22 Toyota	35	30,196.50
23 Credit Mutuel	31	10,587.90
24 Lloyds	30	17,898.90
24 FMS Wertmanagement	30	14,113.30
26 NRW.Bank	29	11,144.90
27 NWB Bank	27	13,542.20
=27 Hesse	27	10,392.20
29 Goldman Sachs	26	29,071.70
=29 CBA	26	18,137.00
=29 NAB	26	15,720.40
32 Freddie Mac	25	37,271.30
=32 Credit Agricole	25	19,837.20
34 Credit Suisse	24	27,084.70
=34 Asian Development Bank	24	15,722.10
=34 Daimler	24	11,202.90
37 BMW	23	11,083.80
=37 Macquarie	23	9,249.10
39 Wells Fargo	22	29,702.70
=39 ING	22	16,144.90
=39 ICBC	22	14,241.50
=39 Westpac	22	12,562.20
=39 BNP Paribas	22	11,601.80
44 TD Bank	20	20,144.70
=44 ANZ	20	10,993.80
46 Fannie Mae	19	37,271.30
=46 Danske Bank	19	9,983.20
48 Barclays	18	20,553.10
=48 UniCredit	18	11,659.10
=48 Societe Generale	18	11,409.90
=48 Nordea Bank	18	10,170.50
Market total	16,478	8,660,901.40

Source: Thomson Reuters

TOP 50 GLOBAL CORPORATE
BORROWERS – LOANS AND BONDS

Borrower	Number of deals	Amount US\$(m)
1 Actavis	5	64,681.80
2 AT&T	9	41,428.10
3 Medtronic	3	36,718.30
4 Westfield	7	33,493.00
5 Toyota	35	30,196.50
6 Ford	16	28,897.60
7 General Motors	12	27,660.70
8 Bayer	5	27,623.30
9 Porsche	39	26,092.30
10 Verizon	6	25,183.50
11 Merck	4	25,128.00
12 Glencore	6	22,396.80
13 ZF Friedrichshafen	3	21,799.20
14 AbbVie	2	21,000.00
15 Oracle	2	19,944.20
16 Sky	6	19,782.50
17 Zimmer Holdings	2	19,638.20
18 Kinder Morgan	6	19,533.80
19 GE Capital	15	19,389.50
20 Exxon Mobil	9	19,352.50
21 British American Tobacco	5	17,831.70
22 Wal-Mart	2	17,810.40
23 Merck	2	17,447.70
24 Caterpillar	11	17,259.20
25 Johnson & Johnson	5	17,003.70
26 Itochu	8	16,652.90
27 Total	14	16,601.80
28 Becton Dickinson	3	16,300.00
29 Valeant	3	16,224.50
30 Fiat	17	15,882.30
31 Honda	10	15,755.30
32 ConocoPhillips	3	15,493.70
33 DTC	1	15,365.00
34 Walgreens Boots Alliance	3	15,326.30
35 Exelon	7	15,155.90
36 Sanofi-Aventis	4	14,815.60
37 Altice	7	14,531.30
38 Enbridge	11	14,468.40
39 SAP	3	14,376.00
40 IBM	4	14,347.80
41 Telecom Italia	5	14,238.90
42 Equinix	2	13,824.80
43 Telefonica	9	13,744.60
44 Imperial Tobacco	1	12,966.60
45 Aramco	3	12,868.90
46 Tyson Foods	4	12,816.30
47 GDF Suez	12	12,765.40
48 Trafigura	8	12,656.30
49 Royal Dutch Shell	4	12,618.40
50 CCRE	12	12,469.50
Market total	9,310	5,101,768.30

Source: Thomson Reuters

TOP 50 GLOBAL CORPORATE DEBT
BOOKRUNNERS – LOANS AND BONDS

Bookrunners	Number of deals	Amount US\$(m)
1 JP Morgan	1,507	457,912.8
2 BofA Merrill	1,538	428,845.4
3 Citigroup	926	301,825.7
4 Wells Fargo	995	229,283.1
5 Deutsche Bank	770	211,425.1
6 Barclays	760	193,338.4
7 MUFG	991	164,212.1
8 BNP Paribas	710	164,070.4
9 HSBC	648	138,753.2
10 Morgan Stanley	475	138,019.5
11 Mizuho	642	134,257.6
12 Goldman Sachs	489	131,629.1
13 Credit Suisse	516	126,342.4
14 RBS	586	118,352.7
15 RBC	479	103,830.5
16 Societe Generale	359	74,794.9
17 Credit Agricole	405	70,472.8
18 SMFG	559	64,879.3
19 Scotiabank	246	59,004.3
20 US Bancorp	276	44,273.9
21 UniCredit	237	43,685.4
22 ING	262	43,623.5
23 TD Securities	169	42,362.5
24 Santander	207	41,145.3
25 SunTrust Banks	289	40,284.5
26 BMO	259	39,343.3
27 UBS	214	39,157.7
28 Natixis	235	37,564.5
29 Commerzbank	227	36,679.4
30 CIBC	133	34,012.2
31 State Bank of India	59	29,641.2
32 PNC Financial Services Group	235	29,247.3
33 BBVA	165	28,985.8
34 Lloyds	89	23,046.3
35 ICBC	100	21,767.3
36 Rabobank	109	21,191.3
37 DNB	97	20,984.5
38 Jefferies	117	20,637.8
39 Bank of China	76	20,578.8
40 China Development Bank	15	20,152.9
41 Standard Chartered	110	18,321.0
42 Nomura	98	17,925.8
43 NBC	91	17,638.4
44 ANZ	111	17,623.0
45 Nordea	78	17,556.6
46 Banca IMI/Intesa Sanpaolo	110	16,912.6
47 GE Capital	184	14,801.9
48 KeyBanc	108	12,476.6
49 SEB	43	9,931.1
50 CBA	39	9,571.8
Market total	9,310	5,101,768.3

Source: Thomson Reuters

TOP 50 EUROPEAN CORPORATE DEBT
BOOKRUNNERS – LOANS AND BONDS

Bookrunners	Number of deals	Amount US\$(m)
1 Deutsche Bank	259	81,471.8
2 BNP Paribas	397	78,322.8
3 Citigroup	208	64,597.7
4 JP Morgan	215	61,976.6
5 Societe Generale	287	59,921.7
6 HSBC	307	56,054.2
7 Barclays	222	54,469.2
8 Credit Agricole	248	45,109.7
9 RBS	188	42,181.0
10 BofA Merrill	148	40,665.3
11 UniCredit	212	39,138.3
12 ING	177	31,977.2
13 Santander	144	31,888.2
14 Commerzbank	206	31,774.0
15 Natixis	181	29,681.1
16 Goldman Sachs	111	26,008.9
17 Credit Suisse	117	25,798.4
18 Morgan Stanley	90	22,910.0
19 MUFG	100	22,850.9
20 Mizuho	69	18,953.9
21 Lloyds	69	16,143.0
22 BBVA	84	15,262.6
23 Banca IMI/Intesa Sanpaolo	96	14,168.1
24 UBS	69	13,962.9
25 Nordea	65	13,839.0
26 DNB	58	12,920.0
27 RBC	62	11,161.9
28 SEB	41	9,597.5
29 SMFG	42	9,227.7
30 Rabobank	48	8,594.3
31 Wells Fargo	31	6,369.7
32 Credit Mutuel	41	6,024.0
33 LBBW	43	6,008.7
34 BayernLB	30	5,927.2
35 ABN AMRO	36	5,779.0
36 Danske Bank	38	5,659.4
37 CaixaBank	40	4,917.1
38 Mediobanca	32	4,497.2
39 Nomura	23	4,317.2
40 Standard Chartered	19	4,145.3
41 ANZ	27	3,883.2
42 Swedbank	25	3,277.7
43 Handelsbanken	23	3,238.8
44 Bank of China	15	2,517.4
45 Scotiabank	10	2,407.9
46 DBS	14	2,359.5
47 Jefferies	13	2,211.0
48 SunTrust Banks	10	1,993.3
49 Credit Mutuel	18	1,907.3
50 DZ Bank	18	1,741.2
Market total	2,084	1,433,588.50

Source: Thomson Reuters

TOP 50 GLOBAL CORPORATE INVESTMENT-GRADE DEBT BOOKRUNNERS – LOANS AND BONDS

Bookrunners	Number of deals	Amount US\$(m)
1 JP Morgan	728	292,647.4
2 BofA Merrill	621	256,134.6
3 Citigroup	490	208,707.9
4 Wells Fargo	385	120,129.3
5 Deutsche Bank	309	119,432.7
6 Barclays	355	116,119.0
7 BNP Paribas	369	105,178.4
8 HSBC	345	90,874.0
9 MUFG	280	81,671.0
10 Morgan Stanley	202	80,463.9
11 RBS	317	79,911.7
12 Goldman Sachs	168	74,761.4
13 Credit Suisse	152	62,869.1
14 Mizuho	162	60,968.4
15 RBC	184	54,336.7
16 Societe Generale	205	47,707.0
17 Credit Agricole	177	36,939.1
18 Scotiabank	120	31,298.7
19 Santander	121	29,091.0
20 UniCredit	114	22,514.3
21 TD Securities	77	22,450.1
22 US Bancorp	116	21,459.2
23 Commerzbank	99	19,045.0
24 ING	106	18,990.8
25 UBS	79	17,966.6
26 BBVA	82	17,308.3
27 Natixis	91	16,841.4
28 SMFG	70	15,953.2
29 CIBC	54	15,730.7
30 Lloyds	54	14,454.8
31 BMO	46	13,675.1
32 SunTrust	60	10,651.6
33 ANZ	74	10,537.2
34 DNB	42	10,319.4
35 PNC	55	9,365.2
36 Standard Chartered	50	8,753.6
37 State Bank of India	22	8,381.4
38 Banca IMI/Intesa Sanpaolo	46	7,555.8
39 Rabobank	31	6,742.4
40 ICBC	16	6,378.6
41 Bank of China	31	6,280.7
42 DBS Group	39	6,084.3
43 CBA	23	5,849.5
44 SEB	23	5,362.1
45 NBC	12	4,357.5
46 Korea Development Bank	11	4,260.8
47 Nordea	31	4,074.9
48 Danske Bank	31	4,053.6
49 China Development Bank	2	3,541.0
50 NAB	16	3,245.5
Market total	2,584	2,605,799.3

Source: Thomson Reuters

TOP 50 INTERNATIONAL CORPORATE BOND BOOKRUNNERS

Bookrunners	Number of deals	Amount US\$(m)
1 JP Morgan	595	156,123.2
2 BofA Merrill	478	117,963.3
3 Citigroup	439	105,419.4
4 Deutsche Bank	424	100,465.2
5 Barclays	402	89,065.6
6 Morgan Stanley	324	77,199.7
7 HSBC	338	70,605.6
8 Goldman Sachs	303	70,243.7
9 BNP Paribas	336	62,341.5
10 Credit Suisse	289	61,764.9
11 Wells Fargo	254	51,772.3
12 RBS	245	43,952.3
13 RBC	209	33,512.6
14 Societe Generale	183	32,335.9
15 MUFG	151	30,431.1
16 Mizuho	104	25,722.1
17 Credit Agricole	183	25,624.2
18 UBS	133	22,792.5
19 UniCredit	107	17,198.5
20 Santander	92	14,397.1
21 BBVA	66	12,492.6
22 Natixis	92	12,124.2
23 ING	85	11,358.2
24 Commerzbank	65	10,901.1
25 Scotiabank	78	10,599.6
26 SunTrust Banks	76	10,155.3
27 Lloyds	49	8,953.8
28 SMFG	46	8,442.4
29 US Bancorp	59	8,219.4
30 Banca IMI/Intesa Sanpaolo	49	6,929.8
31 Jefferies	55	6,891.9
32 Standard Chartered	46	5,421.9
33 TD Securities	39	5,371.6
34 Danske Bank	33	3,835.3
35 Nomura	24	3,821.2
36 DNB	25	3,593.3
37 ANZ	35	3,571.1
38 SEB	19	3,353.1
39 Nordea	25	3,278.2
40 Bank of China	29	3,063.7
41 BMO	31	2,591.6
42 Credit Mutuel	21	2,291.2
43 Mediobanca	17	1,996.8
44 CIBC	21	1,975.6
45 Swedbank	21	1,822.3
46 BayernLB	11	1,681.5
47 CaixaBank	16	1,678.1
48 Rabobank	8	1,583.2
49 DBS	18	1,528.5
50 Handelsbanken	17	1,483.6
Market total	1,849	1,417,191.3

Source: Thomson Reuters

TOP 50 US CORPORATE DEBT BOOKRUNNERS – LOANS AND BONDS

Bookrunners	Number of deals	Amount US\$(m)
1 BofA Merrill	1,273	361,093.0
2 JP Morgan	1,150	359,709.1
3 Wells Fargo	937	218,765.8
4 Citigroup	551	189,855.4
5 Barclays	432	116,586.6
6 Deutsche Bank	395	106,511.7
7 Morgan Stanley	309	100,441.5
8 Goldman Sachs	343	98,171.8
9 Credit Suisse	339	88,911.1
10 MUFG	276	73,649.5
11 RBS	343	66,476.9
12 BNP Paribas	200	57,147.1
13 HSBC	175	53,728.3
14 RBC	272	51,141.9
15 Mizuho	109	44,381.1
16 US Bancorp	268	43,081.0
17 SunTrust Banks	272	37,370.8
18 PNC Financial Services Group	230	28,456.5
19 UBS	109	19,525.3
20 Jefferies	99	17,835.8
21 Scotiabank	89	16,000.1
22 Credit Agricole	100	15,774.4
23 BMO	165	15,614.1
24 TD Securities	45	15,152.3
25 GE Capital	173	13,694.2
26 KeyBanc	102	11,867.8
27 SMFG	48	10,191.1
28 Societe Generale	45	9,288.2
29 Rabobank	33	8,084.7
30 Fifth Third Bancorp	71	7,009.9
31 Nomura	37	6,314.6
32 Lloyds	15	6,035.6
33 Macquarie	38	5,950.0
34 ING	46	5,790.7
35 DNB	28	5,775.5
36 Regions Bank	54	5,737.4
37 BBVA	42	5,368.9
38 CoBank	24	4,188.1
39 Natixis	28	3,818.0
40 Commerzbank	11	3,409.0
41 CIT Group	34	3,006.0
42 BOK Financial Corp	19	2,846.3
43 Santander	26	2,807.8
44 UniCredit	14	2,666.8
45 Standard Chartered	11	2,029.5
46 Capital One Financial Corp	24	2,014.7
47 National Rural Utilities Coop	6	2,005.0
48 Madison Capital Funding	42	1,999.9
49 KKR	16	1,880.9
50 ICBC	7	1,849.7
Market total	3,709	2,566,279.8

Source: Thomson Reuters

TOP 20 EUROPEAN CORPORATE BOND BOOKRUNNERS

	Bookrunners	Number of deals	Amount US\$(m)
1	BNP Paribas	189	31,897.5
2	JP Morgan	135	28,556.3
3	Citigroup	120	27,755.7
4	Deutsche Bank	128	27,545.9
5	HSBC	155	27,305.8
6	Barclays	126	27,254.6
7	Societe Generale	156	27,251.8
8	BofA Merrill	74	17,405.5
9	RBS	106	17,222.6
10	Credit Agricole	109	16,141.2
11	UniCredit	100	15,843.2
12	Credit Suisse	74	15,055.0
13	Morgan Stanley	68	14,192.6
14	Goldman Sachs	73	13,011.6
15	MUFG	49	10,913.7
16	Natixis	78	10,396.2
17	Commerzbank	60	9,909.4
18	Santander	61	9,696.6
19	Mizuho	38	8,912.2
20	ING	65	8,121.0
Market total		715	445,003.2

Source: Thomson Reuters

TOP 20 INTERNATIONAL INVESTMENT-GRADE CORPORATE BOND BOOKRUNNERS

	Bookrunners	Number of deals	Amount US\$(m)
1	JP Morgan	332	115,817.0
2	BofA Merrill	268	87,272.9
3	Citigroup	254	69,325.8
4	Deutsche Bank	229	65,884.1
5	Barclays	238	64,377.5
6	HSBC	233	55,872.8
7	Morgan Stanley	182	54,216.0
8	BNP Paribas	247	52,367.0
9	Goldman Sachs	139	43,189.0
10	Wells Fargo	124	36,434.1
11	RBS	176	36,385.4
12	Credit Suisse	114	36,190.0
13	Societe Generale	138	26,402.3
14	MUFG	116	24,913.0
15	Mizuho	89	24,305.6
16	RBC	105	19,353.0
17	Credit Agricole	108	17,017.3
18	UBS	74	14,970.4
19	UniCredit	73	12,862.8
20	Santander	65	11,435.3
Market total		1,222	1,007,676.8

Source: Thomson Reuters

TOP 20 GLOBAL INVESTMENT-GRADE CORPORATE LOAN BOOKRUNNERS

	Bookrunners	Number of deals	Amount US\$(m)
1	JP Morgan	528	229,953.9
2	BofA Merrill	500	202,441.8
3	Citigroup	324	162,368.7
4	Wells Fargo	386	106,661.3
5	Mitsubishi UFJ Financial	239	70,226.2
6	Deutsche Bank	127	65,099.6
7	Barclays	167	61,829.3
8	BNP Paribas	165	57,315.6
9	RBS	193	51,948.1
10	HSBC	193	48,450.5
11	Mizuho	117	41,704.9
12	RBC	103	38,824.1
13	Goldman Sachs	42	32,899.1
14	Morgan Stanley	51	31,335.5
15	Credit Suisse	54	29,789.7
16	Scotiabank	77	25,048.4
17	Societe Generale	89	23,563.2
18	Credit Agricole	89	22,241.1
19	US Bancorp	112	22,016.6
20	TD Securities	49	18,855.1
Market total		1,788	1,769,110.2

Source: Thomson Reuters

TOP 20 US CORPORATE INTERNATIONAL BOND BOOKRUNNERS

	Bookrunners	Number of deals	Amount US\$(m)
1	JP Morgan	364	107,907.5
2	BofA Merrill	333	87,763.9
3	Deutsche Bank	214	57,524.6
4	Citigroup	216	52,998.4
5	Goldman Sachs	201	50,840.0
6	Morgan Stanley	181	49,575.8
7	Barclays	208	49,154.5
8	Wells Fargo	239	48,806.0
9	Credit Suisse	160	37,672.8
10	HSBC	71	24,671.6
11	RBS	113	21,437.8
12	RBC	123	19,861.9
13	BNP Paribas	79	18,907.4
14	MUFG	83	16,735.5
15	Mizuho	51	14,043.2
16	UBS	56	11,267.9
17	SunTrust Banks	73	9,866.9
18	US Bancorp	58	8,119.7
19	Credit Agricole	56	6,394.2
20	Jefferies	44	5,837.6
Market total		699	744,933.1

Source: Thomson Reuters

TOP 20 COVERED BOND BOOKRUNNERS

	Bookrunners	Number of deals	Amount US\$(m)
1	Natixis	67	15,272.1
2	BNP Paribas	50	13,349.3
3	Barclays	45	12,088.7
4	HSBC	51	10,891.2
5	Commerzbank	44	8,661.7
6	Credit Agricole	43	7,544.2
7	Deutsche Bank	36	7,388.1
8	UniCredit	41	7,262.9
9	RBS	33	7,165.3
10	UBS	29	6,681.7
11	LBBW	44	6,515.4
12	RBC	18	5,243.9
13	Citigroup	20	4,969.1
14	Santander	18	4,613.3
15	Societe Generale	23	4,562.7
16	JP Morgan	16	4,185.3
17	Nomura	13	4,173.2
18	Credit Suisse	17	4,052.6
19	Danske Bank	21	3,775.7
20	DZ Bank	29	3,617.9
Market total		250	191,415.2

Source: Thomson Reuters

TOP 10 EEMEA LEV AND IG LOAN BOOKRUNNERS

Bookrunners	Number of deals	Amount US\$(m)
1 Citigroup	40	7,290.3
2 HSBC	37	6,259.8
3 Standard Chartered	40	5,615.5
4 Deutsche Bank	23	5,222.5
5 Mizuho	17	3,655.9
6 Societe Generale	19	3,549.2
7 ING	34	3,543.3
8 BNP Paribas	23	3,123.4
9 Mitsubishi UFJ Financial	14	2,790.2
10 JP Morgan	15	2,747.6
Market total	150	97,444.4

Source: Thomson Reuters

TOP 10 CORPORATE BOND ISSUERS

Borrower	Number of deals	Amount US\$(m)
1 AT&T	8	32,273.1
2 Actavis	2	24,131.8
3 Oracle	2	19,944.2
4 Medtronic	1	16,918.3
5 Total	13	16,351.8
6 GE Capital	10	16,280.7
7 General Motors	11	15,160.7
8 Toyota	28	14,473.8
9 Verizon	4	13,883.5
10 Ford	13	13,852.5
Market total	1,849	1,417,191.3

Source: Thomson Reuters

TOP 10 COVERED BOND ISSUERS

Issuer	Number of deals	Amount US\$(m)
1 BPCE	14	10,951.7
2 TD Bank	6	9,926.1
3 Santander	5	8,103.4
4 Nationwide	5	6,834.3
5 SGVHT	9	6,800.2
6 Scotiabank	5	6,364.9
7 RBC	4	5,780.7
8 Nordea Bank	6	5,652.8
9 Danske Bank	5	5,303.2
10 Westpac	3	4,720.4
Market total	252	191,597.1

Source: Thomson Reuters

TOP 10 EEMEA SOVEREIGN BOND BOOKRUNNERS

Bookrunners	Number of deals	Amount US\$(m)
1 JP Morgan	9	4,355.9
2 Barclays	9	3,712.5
3 Citigroup	10	3,614.0
4 HSBC	7	3,503.1
5 Deutsche Bank	11	3,494.1
6 Societe Generale	9	3,487.6
7 UniCredit	4	1,909.1
8 BNP Paribas	6	1,891.8
9 Standard Bank	3	1,299.2
10 Erste Group	4	1,250.5
Market total	28	35,413.7

Source: Thomson Reuters

TOP 10 EEMEA INTERNATIONAL BOND BOOKRUNNERS

Bookrunners	Number of deals	Amount US\$(m)
1 HSBC	49	10,720.1
2 Citigroup	51	10,413.1
3 JP Morgan	30	8,693.0
4 Deutsche Bank	45	8,282.1
5 Barclays	35	8,025.8
6 BNP Paribas	29	6,034.9
7 Standard Chartered	40	5,052.8
8 Societe Generale	15	4,454.0
9 UniCredit	15	2,984.1
10 Morgan Stanley	15	2,667.3
Market total	238	109,617.9

Source: Thomson Reuters

TOP 10 COCO BOND ISSUERS

Bookrunners	Number of deals	Amount US\$(m)
1 HSBC	3	8,189.0
2 Bank of China	1	6,499.8
3 Deutsche Bank	2	6,243.8
4 UBS Group	1	3,538.8
5 Banco Santander	2	3,470.3
6 Credit Suisse	1	2,500.0
7 ING	1	2,250.0
8 Standard Chartered	1	2,000.0
9 Rabobank	1	1,744.6
10 BBVA	1	1,699.9
Market total	32	52,351.8

Source: Thomson Reuters

TOP 20 ASIA-PACIFIC INTERNATIONAL BOND BOOKRUNNERS EX-JAPAN

Bookrunners	Number of deals	Amount US\$(m)
1 HSBC	253	35,904.6
2 Citigroup	147	31,107.4
3 JP Morgan	132	27,275.0
4 Deutsche Bank	137	22,351.3
5 BofA Merrill	93	20,355.2
6 Standard Chartered	127	16,229.5
7 Morgan Stanley	89	15,690.4
8 Goldman Sachs	58	14,526.6
9 UBS	89	13,431.0
10 Credit Suisse	65	11,577.4
11 Barclays	70	11,363.5
12 BNP Paribas	89	11,275.2
13 ANZ	80	10,797.0
14 Bank of China	81	9,782.8
15 RBS	43	7,322.0
16 DBS	71	7,161.4
17 ICBC	52	6,636.2
18 NAB	34	5,841.2
19 CBA	20	5,344.3
20 Credit Agricole	38	5,259.2
Market total	710	354,735.6

Source: Thomson Reuters

TOP 20 INTERNATIONAL JAPAN BOND BOOKRUNNERS

Bookrunners	Number of deals	Amount US\$(m)
1 BofA Merrill	22	7,947.0
2 Citigroup	20	7,370.4
3 JP Morgan	22	7,109.3
4 Morgan Stanley	18	5,632.9
5 Barclays	15	5,019.1
6 BNP Paribas	21	3,952.1
7 MUFG	14	3,557.9
8 Mizuho	14	3,360.0
9 Goldman Sachs	11	3,297.4
10 Deutsche Bank	9	2,568.7
11 Nomura	10	2,360.6
12 HSBC	7	1,927.3
13 Daiwa	11	1,548.9
14 RBC	5	1,366.1
15 SMFG	7	1,307.9
16 RBS	3	1,286.7
17 Societe Generale	3	1,098.6
18 Lloyds	3	673.6
19 Credit Suisse	3	658.3
20 Credit Agricole	3	481.3
Market total	102	65,068.8

Source: Thomson Reuters

TOP 50 EMEA INTERNATIONAL BOND BOOKRUNNERS

Bookrunners	Number of deals	Amount US\$(m)
1 Deutsche Bank	545	152,716.4
2 Barclays	457	137,838.6
3 HSBC	544	129,723.7
4 BNP Paribas	444	108,608.6
5 JP Morgan	422	101,268.4
6 Citigroup	376	100,506.9
7 Societe Generale	339	83,652.2
8 Credit Agricole	292	75,957.7
9 UniCredit	298	67,817.3
10 Credit Suisse	229	66,765.4
11 Goldman Sachs	228	66,576.0
12 BofA Merrill	242	65,321.1
13 Natixis	267	58,305.8
14 RBS	257	57,603.7
15 Morgan Stanley	238	56,972.5
16 UBS	137	40,413.0
17 Commerzbank	192	37,488.3
18 Nomura	181	35,857.8
19 RBC	194	32,583.8
20 Santander	143	30,596.4
21 Lloyds	95	26,445.4
22 LBBW	158	22,851.6
23 Banca IMI/Intesa Sanpaolo	74	18,711.8
24 BBVA	77	18,125.6
25 ING	117	16,985.1
26 TD Securities	144	16,495.6
27 Danske Bank	105	15,933.0
28 DZ Bank	104	14,421.9
29 MUFG	64	13,824.9
30 Nordea	99	13,801.4
31 Mizuho	79	13,017.7
32 CaixaBank	36	12,887.0
33 Standard Chartered	70	11,629.7
34 Rabobank	47	10,713.7
35 Nord/LB	66	10,183.1
36 BayernLB	69	9,931.9
37 DekaBank	73	8,994.3
38 Wells Fargo	26	7,948.9
39 Daiwa	99	7,814.4
40 SEB	41	6,884.7
41 BMPS	4	6,841.9
42 WGZ-Bank	56	6,647.3
43 SMFG	64	6,027.8
44 Mediobanca	37	5,945.1
45 Helaba	48	5,632.9
46 Swedbank	60	5,621.3
47 HSH Nordbank	32	4,828.1
48 ANZ	55	4,597.2
49 Erste Group	25	4,316.5
50 Scotiabank	25	3,006.8
Market total	3,286	1,918,589.7

Source: Thomson Reuters

TOP 50 EMEA LOAN BOOKRUNNERS

Bookrunners	Number of deals	Amount US\$(m)
1 Deutsche Bank	157	58,669.1
2 BNP Paribas	249	52,497.4
3 Citigroup	115	41,913.2
4 JP Morgan	90	40,573.5
5 HSBC	208	36,740.1
6 Societe Generale	165	35,762.0
7 Credit Agricole	170	34,041.9
8 ING	158	29,765.2
9 UniCredit	157	29,172.3
10 RBS	116	28,678.1
11 Commerzbank	194	28,507.0
12 Barclays	132	28,049.3
13 Santander	95	24,071.4
14 Natixis	144	23,799.9
15 BofA Merrill	65	21,031.4
16 Mizuho	50	14,809.0
17 Nordea	53	14,751.3
18 Lloyds	48	13,544.7
19 Mitsubishi UFJ Financial	61	13,038.9
20 Goldman Sachs	51	11,896.8
21 DNB	49	11,595.9
22 Standard Chartered	52	10,920.1
23 Morgan Stanley	24	10,887.3
24 Credit Suisse	47	10,198.8
25 Intesa Sanpaolo	63	9,613.1
26 BBVA	53	9,245.2
27 Rabobank	53	8,547.4
28 SEB	30	7,367.7
29 ABN AMRO	40	7,224.1
30 SMFG	34	6,996.3
31 LBBW	38	6,403.9
32 Credit Mutuel	42	6,266.1
33 UBS	22	4,997.6
34 BayernLB	27	4,691.0
35 RBC	25	4,648.1
36 Nomura	19	3,785.5
37 Mediobanca	19	3,499.4
38 CaixaBank	28	3,347.0
39 Danske Bank	15	2,896.5
40 Swedbank	13	2,601.4
41 Bank of China	10	2,600.5
42 State Bank of India	2	2,323.9
43 Mashreq Bank	14	2,275.2
44 Scotiabank	9	2,172.6
45 Wells Fargo	16	2,171.7
46 ANZ	13	2,107.9
47 Handelsbanken	10	2,087.5
48 Emirates NBD	11	2,013.7
49 Samba Financial	4	1,951.8
50 DBS	9	1,766.3
Market total	995	801,143.1

Source: Thomson Reuters

TOP 50 ASIA-PACIFIC EX-JAPAN LOAN BOOKRUNNERS

Bookrunners	Number of deals	Amount US\$(m)
1 ICBC	274	49,148.0
2 Bank of China	126	34,347.7
3 China Development Bank	36	32,779.1
4 State Bank of India	68	29,016.7
5 ANZ	109	20,418.0
6 CBA	42	11,204.1
7 Korea Development Bank	45	10,617.8
8 Standard Chartered	81	10,155.0
9 Westpac	46	9,989.7
10 China Construction Bank	14	9,401.5
11 NAB	40	9,283.4
12 HSBC	72	9,041.7
13 Mizuho	65	8,882.6
14 DBS	58	8,557.7
15 Mitsubishi UFJ Financial	53	7,263.9
16 Deutsche Bank	40	5,722.5
17 SMFG	39	5,711.5
18 Bank of Taiwan	59	4,456.5
19 BNP Paribas	40	4,369.4
20 Bank of Communications	7	4,013.3
21 Fubon Financial Holding	42	3,567.1
22 Mega Financial Holding	44	3,462.5
23 Credit Agricole	26	3,458.6
24 RBS	29	3,342.3
25 Taiwan Cooperative Bank	53	3,181.4
26 Axis Bank	21	3,113.6
27 Malayan Banking	11	3,108.3
28 Citigroup	20	3,048.6
29 CTBC Financial Holding	47	3,041.0
30 OCBC	14	3,020.1
31 United Overseas Bank	19	2,815.9
32 Agricultural Bank of China	9	2,747.8
33 Kotak Mahindra	6	2,584.8
34 ING	20	2,375.9
35 Shanghai Automotive Grp Fin Co	2	2,244.9
36 Land Bank of Taiwan	36	2,132.1
37 Union Bank of India	1	2,129.0
38 First Financial Holding	37	2,056.8
39 ICICI	13	2,038.4
40 Natixis	16	1,978.9
41 CITIC	25	1,936.4
42 Credit Suisse	9	1,835.7
43 Chang Hwa Commercial Bank	30	1,721.0
44 Taishin International Bank	27	1,679.1
45 Rabobank	10	1,607.5
46 Scotiabank	9	1,465.7
47 JP Morgan	8	1,457.3
48 CIMB	9	1,449.7
49 BofA Merrill	13	1,437.1
50 Shanghai Pudong Dev	9	1,426.1
Market total	1,220	387,518.9

Source: Thomson Reuters

TOP 10 JAPAN LOAN BOOKRUNNERS

	Bookrunners	Number of deals	Amount US\$(m)
1	Mizuho	501	83,691.0
2	Mitsubishi UFJ Financial	665	64,122.1
3	SMFG	600	53,060.7
4	Sumitomo Mitsui Trust Hlds	36	2,451.8
5	Resona Holdings	102	2,348.0
6	Development Bank of Japan	25	2,233.1
7	Aozora Bank	38	1,865.9
8	Bank of Yokohama	83	1,652.1
9	Citigroup	4	1,553.5
10	Shinsei Bank	19	1,141.9
	Market total	2,000	219,942.7

Source: Thomson Reuters

TOP 10 LATIN AMERICA LOAN BOOKRUNNERS

	Bookrunners	Number of deals	Amount US\$(m)
1	BBVA	24	4,371.4
2	Citigroup	27	4,330.8
3	BofA Merrill	14	3,497.4
4	HSBC	23	3,160.7
5	JP Morgan	13	3,005.9
6	Santander	15	2,813.1
7	BNP Paribas	13	2,731.6
8	Mitsubishi UFJ Financial	15	2,505.6
9	Mizuho	15	2,192.8
10	Wells Fargo	8	2,159.4
	Market total	134	55,995.1

Source: Thomson Reuters

TOP 10 LATIN AMERICA INTERNATIONAL

	Bookrunners	Number of deals	Amount US\$(m)
1	Citigroup	55	17,889.6
2	BofA Merrill	36	11,635.8
3	HSBC	40	11,334.6
4	Deutsche Bank	33	9,777.0
5	JP Morgan	29	8,530.8
6	Morgan Stanley	26	8,155.1
7	Credit Suisse	27	6,423.3
8	Santander	26	5,580.0
9	BBVA	18	5,020.6
10	Goldman Sachs	7	3,737.8
	Market total	149	113,487.8

Source: Thomson Reuters

TOP 20 US/CANADA INTERNATIONAL BOND BOOKRUNNERS

	Bookrunners	Number of deals	Amount US\$(m)
1	JP Morgan	589	183,210.1
2	BofA Merrill	501	151,589.9
3	Barclays	393	128,523.3
4	Citigroup	425	126,013.0
5	Morgan Stanley	350	120,478.8
6	Deutsche Bank	414	113,353.1
7	Goldman Sachs	346	109,486.5
8	Wells Fargo	383	102,971.9
9	Credit Suisse	316	80,592.0
10	RBC	273	50,851.6
11	HSBC	150	38,598.0
12	RBS	162	33,062.9
13	BNP Paribas	132	32,543.1
14	TD Securities	142	32,060.7
15	MUFG	102	21,610.4
16	Nomura	54	20,911.9
17	UBS	90	20,018.7
18	Scotiabank	102	19,373.6
19	Mizuho	62	15,557.4
20	US Bancorp	81	14,049.3
	Market total	1,938	1,564,390.1

Source: Thomson Reuters

TOP 20 US/CANADA LEV AND IG LOAN BOOKRUNNERS

	Bookrunners	Number of deals	Amount US\$(m)
1	BofA Merrill	1,240	331,606.5
2	JP Morgan	1,034	324,559.9
3	Wells Fargo	969	216,402.4
4	Citigroup	446	173,542.6
5	Barclays	283	87,864.1
6	RBC	314	77,487.6
7	Mitsubishi UFJ Financial	243	76,817.7
8	Deutsche Bank	245	65,497.4
9	Credit Suisse	228	60,689.0
10	RBS	293	53,995.0
11	Morgan Stanley	163	52,578.7
12	Goldman Sachs	166	50,422.3
13	BNP Paribas	142	49,624.0
14	US Bancorp	316	49,107.6
15	Scotiabank	167	47,714.2
16	BMO	272	43,390.6
17	TD Securities	156	43,132.1
18	SunTrust Banks	297	39,366.7
19	CIBC	129	36,585.2
20	HSBC	127	36,427.4
	Market total	4,549	2,472,306.5

Source: Thomson Reuters

TOP 20 EUROPEAN LEVERAGED LOAN BOOKRUNNERS

	Bookrunners	Number of deals	Amount US\$(m)
1	Deutsche Bank	53	13,275.1
2	BNP Paribas	65	12,110.1
3	JP Morgan	31	9,711.7
4	Credit Agricole	47	9,615.4
5	ING	40	8,101.4
6	UniCredit	44	7,521.0
7	Societe Generale	37	5,807.6
8	Barclays	31	5,626.4
9	Natixis	41	5,613.1
10	Morgan Stanley	12	5,468.8
11	HSBC	40	5,335.4
12	RBS	20	5,005.6
13	Credit Suisse	28	4,895.7
14	BofA Merrill	13	4,389.5
15	Goldman Sachs	27	3,841.1
16	Nomura	19	3,785.5
17	Nordea	12	3,685.9
18	Citigroup	19	3,606.7
19	Santander	16	3,096.7
20	DNB	12	3,057.7
	Market total	88	42,214.4

Source: Thomson Reuters

TOP 10 HIGH-YIELD CORPORATE BOND ISSUERS

Borrower	Number of deals	Amount US\$(m)
1 Valeant Pharmaceuticals	2	11,074.5
2 VimpelCom	2	6,368.1
3 Schaeffler	4	6,030.6
4 ZF Friedrichshafen	2	5,872.6
5 Altice	3	5,336.3
6 Dynegy	1	5,100.0
7 Occidental Petroleum	1	5,000.0
8 GA Worldwide	1	4,955.8
9 Cheniere Energy	3	4,507.5
10 Ardagh Group	3	4,500.7
Market total	610	375,287.3

Source: Thomson Reuters

TOP 20 AGENCY BORROWERS

Borrower	Number of deals	Amount US\$(m)
1 KfW	91	54,745.40
2 Fannie Mae	25	37,797.10
3 Freddie Mac	19	37,271.30
4 Canada Housing Trust No. 1	8	30,475.20
5 Pemex	12	23,430.70
6 CADES	13	21,190.40
7 FHLBanks	37	20,917.10
8 BNG	46	17,286.00
9 Landwirtschaftliche Rentenbank	51	14,778.00
10 FMS Wertmanagement	30	14,113.30
11 NWB Bank	27	13,542.20
12 NRW.Bank	29	11,144.90
13 UNEDIC	9	10,335.30
14 Kommunalbanken	37	7,722.40
15 Korea Eximbank	143	7,579.60
16 AFD	8	6,782.60
17 Kommuninvest I Sverige	12	4,826.40
18 NTMA	1	4,500.40
19 JBIC	3	3,481.70
20 JFM	3	3,279.60
Market total	698	391,607.20

Source: Thomson Reuters

TOP 10 EUROPEAN HIGH-YIELD INTERNATIONAL CORPORATE BOND BOOKRUNNERS

Bookrunners	Number of deals	Amount US\$(m)
1 Deutsche Bank	72	13,263.7
2 Citigroup	50	10,850.4
3 JP Morgan	72	10,438.1
4 Goldman Sachs	61	10,188.7
5 Credit Suisse	57	8,876.3
6 Barclays	48	8,299.4
7 BNP Paribas	57	7,041.9
8 HSBC	51	6,809.1
9 Morgan Stanley	30	5,604.9
10 Societe Generale	38	5,294.6
Market total	201	133,925.0

Source: Thomson Reuters

TOP 20 INTERNATIONAL CONVERTIBLE BOND BOOKRUNNERS

Borrower	Number of deals	Amount US\$(m)
1 Nomura	25	4,919.1
2 JP Morgan	27	4,070.9
3 Morgan Stanley	24	3,872.2
4 BofA Merrill	18	3,486.2
5 UBS	16	3,428.1
6 Goldman Sachs	18	3,247.2
7 Deutsche Bank	15	2,861.2
8 BNP Paribas	18	2,671.0
9 Barclays	15	2,522.3
10 Citigroup	12	1,954.3
11 HSBC	15	1,916.8
12 Societe Generale	8	1,503.6
13 Credit Suisse	8	1,235.7
14 Daiwa	10	1,064.9
15 Credit Agricole	8	914.4
16 SMFG	7	729.4
17 Mizuho	7	609.4
18 UniCredit	3	596.0
19 Natixis	4	451.7
20 Wells Fargo	2	416.9
Market total	161	49,670.1

Source: Thomson Reuters

TOP 10 US AGENCY INTERNATIONAL BOND BOOKRUNNERS

Bookrunners	Number of deals	Amount US\$(m)
1 Barclays	39	39,691.9
2 Nomura	9	10,578.8
3 Deutsche Bank	10	7,763.5
4 JP Morgan	8	6,666.2
5 TD Securities	6	3,100.4
6 Morgan Stanley	4	2,933.6
7 Citigroup	4	2,216.5
8 HSBC	7	1,072.1
9 Wells Fargo	3	622.1
10 BNP Paribas	2	311.6
Market total	64	75,643.3

Source: Thomson Reuters

TOP 10 AGENCY INTERNATIONAL BOND BOOKRUNNERS

Bookrunners	Number of deals	Amount US\$(m)
1 Barclays	131	63,659.9
2 Deutsche Bank	132	35,752.3
3 JP Morgan	77	22,544.2
4 Nomura	70	22,256.7
5 HSBC	116	21,568.5
6 RBC	78	17,952.9
7 TD Securities	72	17,348.9
8 BNP Paribas	61	16,667.0
9 Goldman Sachs	41	14,982.7
10 Citigroup	61	14,401.3
Market total	698	391,607.2

Source: Thomson Reuters

TOP 20 LEVERAGED LOAN BORROWERS

Borrower	Number of deals	Amount US\$(m)
1 Valeant Pharmaceuticals	2	14,750.0
2 Blackstone Group	16	12,884.9
3 KKR	12	10,750.0
4 Hillshire Brands	1	10,255.8
5 Energy Future	2	9,875.0
6 CVC Capital Partners	6	9,777.7
7 Dollar General	1	9,750.0
8 3G Capital Partners	2	9,500.0
9 GE Capital	2	9,210.0
10 Dollar Tree	1	9,000.0
11 Ball	1	8,087.0
12 Altice	3	7,868.3
13 PetSmart	1	6,950.0
14 Alcoa	2	6,500.0
15 Schaeffler	2	6,260.2
16 FCC	1	6,164.1
17 Apax Partners Worldwide	6	5,995.7
18 MacAndrews & Forbes	4	5,692.6
19 Bain Capital	10	5,691.0
20 BC Partners	6	5,628.8
Market total	3,059	1,274,497.8

* For this list, unlike in the other tables, debt has been rolled right up to the ultimate parent without making exceptions for private equity companies, which dominate the table and would be excluded under the usual methodology.

Source: Thomson Reuters

TOP 10 SOVEREIGN BORROWERS

Borrower	Number of deals	Amount US\$(m)
1 Spain	8	49,483.6
2 Italy	9	49,379.2
3 UK	7	32,430.5
4 Portugal	4	18,517.2
5 Belgium	7	14,258.2
6 Sweden	7	13,202.0
7 Austria	3	13,195.3
8 Finland	7	11,245.6
9 Mexico	7	10,401.5
10 Ireland	2	9,368.0
Market total	130	317,930.2

Source: Thomson Reuters

TOP 20 SOVEREIGN INTERNATIONAL

BOND BOOKRUNNERS		
Bookrunners	Number of deals	Amount US\$(m)
1 Citigroup	45	28,953.0
2 HSBC	40	28,303.5
3 Barclays	35	25,742.6
4 JP Morgan	35	23,800.8
5 Deutsche Bank	39	20,606.0
6 BNP Paribas	19	16,210.8
7 Societe Generale	20	15,544.8
8 Morgan Stanley	18	12,972.7
9 Credit Agricole	12	12,546.3
10 Goldman Sachs	18	12,102.6
11 UniCredit	8	11,713.8
12 RBS	10	10,187.5
13 BofA Merrill	15	10,082.6
14 CaixaBank	9	9,403.9
15 Nomura	16	8,879.9
16 Santander	7	6,757.7
17 Banca IMI/Intesa Sanpaolo	3	6,506.9
18 BMPS	2	6,434.2
19 BBVA	8	6,132.3
20 Danske Bank	6	4,790.2
Market total	130	317,930.2

Source: Thomson Reuters

TOP 10 EUROPEAN AGENCY INTERNATIONAL

BOND BOOKRUNNERS		
Bookrunners	Number of deals	Amount US\$(m)
1 Deutsche Bank	114	26,471.0
2 Barclays	85	22,244.4
3 HSBC	94	17,920.0
4 BNP Paribas	54	15,783.6
5 JP Morgan	64	14,613.2
6 RBC	73	13,464.5
7 Goldman Sachs	34	12,924.8
8 Credit Agricole	39	12,258.6
9 Credit Suisse	33	10,873.7
10 Citigroup	45	10,605.6
Market total	563	260,464.9

Source: Thomson Reuters

TOP 20 EM BOND ISSUERS

Borrower	Number of deals	Amount US\$(m)
1 Pemex	6	13,774.7
2 Bank of China	13	12,735.1
3 ICBC	11	11,785.5
4 Mexico	7	10,401.5
5 Alibaba Group	1	7,975.6
6 Sinopec	3	7,403.0
7 Korea Eximbank	36	6,979.6
8 Hutchison Whampoa	4	6,695.8
9 Indonesia	2	5,322.5
10 Bulgaria	2	5,271.8
11 PDVSA	1	5,000.0
12 Petronas	2	4,963.8
13 Etisalat	2	4,608.0
14 Brazil	2	4,535.0
15 Peru	4	4,529.7
16 Colombia	4	4,053.6
17 Kenya	2	3,908.8
18 Turkey	3	3,884.6
19 Dominican Republic	3	3,768.9
20 Exim Bank of China	2	3,462.7
Market total	918	472,805.2

Source: Thomson Reuters

TOP 10 HIGH-YIELD CORPORATE BOND ISSUERS

Borrower	Number of deals	Amount US\$(m)
1 Valeant Pharmaceuticals	2	11,074.5
2 VimpelCom	2	6,368.1
3 Schaeffler	4	6,030.6
4 ZF Friedrichshafen	2	5,872.6
5 Altice	3	5,336.3
6 Dynegy	1	5,100.0
7 Occidental Petroleum	1	5,000.0
8 GA Worldwide	1	4,955.8
9 Cheniere Energy	3	4,507.5
10 Ardagh Group	3	4,500.7
Market total	610	375,287.3

Source: Thomson Reuters

TOP 20 AGENCY BORROWERS

Borrower	Number of deals	Amount US\$(m)
1 KfW	91	54,745.40
2 Fannie Mae	25	37,797.10
3 Freddie Mac	19	37,271.30
4 Canada Housing Trust No. 1	8	30,475.20
5 Pemex	12	23,430.70
6 CADES	13	21,190.40
7 FHLBanks	37	20,917.10
8 BNG	46	17,286.00
9 Landwirtschaftliche Rentenbank	51	14,778.00
10 FMS Wertmanagement	30	14,113.30
11 NWB Bank	27	13,542.20
12 NRW.Bank	29	11,144.90
13 UNEDIC	9	10,335.30
14 Kommunalbanken	37	7,722.40
15 Korea Eximbank	143	7,579.60
16 AFD	8	6,782.60
17 Kommuninvest I Sverige	12	4,826.40
18 NTMA	1	4,500.40
19 JBIC	3	3,481.70
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13 Credit Suisse	8	1,235.7
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16 SMFG	7	729.4
17 Mizuho	7	609.4
18 UniCredit	3	596.0
19 Natixis	4	451.7
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Source: Thomson Reuters

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5 TD Securities	6	3,100.4
6 Morgan Stanley	4	2,933.6
7 Citigroup	4	2,216.5
8 HSBC	7	1,072.1
9 Wells Fargo	3	622.1
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4 Nomura	70	22,256.7
5 HSBC	116	21,568.5
6 RBC	78	17,952.9
7 TD Securities	72	17,348.9
8 BNP Paribas	61	16,667.0
9 Goldman Sachs	41	14,982.7
10 Citigroup	61	14,401.3
Market total	698	391,607.2

Source: Thomson Reuters

**TOP 50 FINANCIAL INTERNATIONAL
BOND BOOKRUNNERS**

	Bookrunners	Number of deals	Amount US\$(m)
1	Citigroup	256	68,729.5
2	Deutsche Bank	247	68,505.1
3	JP Morgan	226	65,333.4
4	Morgan Stanley	210	60,842.3
5	Goldman Sachs	159	56,885.2
6	BofA Merrill	186	54,762.5
7	Barclays	205	54,241.9
8	HSBC	239	51,504.5
9	Credit Suisse	140	42,061.5
10	UBS	115	35,666.9
11	Wells Fargo	78	29,753.0
12	BNP Paribas	131	26,251.4
13	Societe Generale	89	20,371.1
14	Credit Agricole	66	20,168.0
15	Natixis	62	17,307.6
16	RBS	63	12,859.8
17	Standard Chartered	93	12,544.6
18	RBC	52	10,695.3
19	Nomura	90	10,472.1
20	Lloyds	23	8,562.1
21	UniCredit	44	7,564.4
22	Santander	33	7,052.6
23	Commerzbank	43	6,525.2
24	ANZ	53	6,265.4
25	Mizuho	56	5,731.3
26	US Bancorp	20	5,555.7
27	SMFG	66	5,340.2
28	ING	40	5,186.9
29	MUFG	21	5,075.3
30	Daiwa	76	5,025.1
31	Rabobank	20	4,713.2
32	NAB	35	4,360.8
33	ICBC	25	3,899.3
34	CBA	21	3,585.6
35	Banca IMI/Intesa Sanpaolo	15	3,424.6
36	Bank of China	31	3,350.6
37	TD Securities	25	3,135.5
38	DZ Bank	26	3,079.2
39	Danske Bank	20	2,743.8
40	LBBW	18	2,597.9
41	Scotiabank	14	2,443.6
42	DBS	21	2,390.9
43	KGI Securities	11	2,264.0
44	Jefferies	10	2,135.6
45	Mediobanca	10	2,098.6
46	BBVA	12	2,036.2
47	China Construction Bank	22	2,022.0
48	Macquarie	10	2,001.2
49	NBAD	13	1,807.4
50	Swedbank	19	1,702.3
Market total		1,514	898,038.9

Source: Thomson Reuters

**TOP 20 FINANCIAL BORROWERS –
LOANS AND BONDS**

	Borrower	Number of deals	Amount US\$(m)
1	JP Morgan	45	41,567.80
2	Santander	46	36,837.40
3	Morgan Stanley	42	35,243.50
4	BPCE	66	34,090.90
5	Deutsche Bank	36	33,826.00
6	Citigroup	36	29,820.40
7	Wells Fargo	22	29,702.70
8	Goldman Sachs	26	29,071.70
9	Credit Suisse	24	27,084.70
10	Rabobank	58	26,082.10
11	Dexia	51	25,150.90
12	HSBC	16	22,384.70
13	Barclays	18	20,553.10
14	TD Bank	20	20,144.70
15	BofA Merrill	17	19,962.40
16	Credit Agricole	25	19,837.20
17	CBA	26	18,137.00
18	Lloyds	30	17,898.90
19	ING	22	16,144.90
20	NAB	26	15,720.40
Market total		3,154	1,276,495.10

Source: Thomson Reuters

**TOP 10 GLOBAL FINANCIAL BOOKRUNNERS –
BONDS AND LOANS**

	Bookrunners	Number of deals	Amount US\$(m)
1	JP Morgan	301	77,687.4
2	Deutsche Bank	295	73,344.0
3	Citigroup	295	68,219.5
4	HSBC	332	56,705.9
5	BofA Merrill	263	54,461.9
6	Barclays	239	52,373.6
7	BNP Paribas	211	42,586.2
8	Morgan Stanley	188	36,788.7
9	Natixis	142	34,234.4
10	Goldman Sachs	136	33,259.3
Market total		3,154	1,276,495.1

Source: Thomson Reuters

TOP 10 CONVERTIBLE BOND ISSUERS

	Borrower	Number of deals	Amount US\$(m)
1	Telefonica	2	2,953.5
2	IPIC	1	2,184.1
3	Telecom Italia	1	2,164.7
4	Fiat Chrysler Automobiles	1	1,989.0
5	HSBC	1	1,941.2
6	Alcatel-Lucent	1	1,562.5
7	RAG-Stiftung	2	1,388.5
8	Unibail-Rodamco	2	1,219.1
9	LinkedIn Corp	1	1,150.0
10	LIXIL Group Corp	2	1,038.4
Market total		161	49,670.1

Source: Thomson Reuters

TOP 19 SCHULDSCHEIN BOOKRUNNERS

	Arranger	Pro rated volume €m	Deals	Market share %
1	LBBW	3,456.69	27	22.81
2	BayernLB	3,033.48	22	20.01
3	Helaba	2,324.21	27	15.33
4	Commerzbank	1,313.86	19	8.67
5	UniCredit	1,126.86	15	7.43
6	HSBC	1,110.58	11	7.32
7	Nord/LB	607.00	14	4.00
8	DZ Bank	495.90	6	3.27
9	BNP Paribas	347.48	3	2.29
10	IKB	275.50	4	1.81
11	Raiffeisen Bank International	264.17	5	1.74
12	Societe Generale	201.50	2	1.32
13	Erste Bank	188.23	3	1.24
14	Landesbank Berlin	120.00	1	0.79
15	Deutsche Bank	107.50	3	0.70
16	equinet Bank	54.50	3	0.35
17	HSH Nordbank	45.00	2	0.29
18	ING	40.00	1	0.26
19	DekaBank	40.00	1	0.26

Corporate deals only (excludes government and financial services deals)

Source: Thomson Reuters LPC



BURDEN OF ABUNDANCE

Liquidity in the bond market is becoming increasingly difficult to find and there are no easy solutions to the conundrum as ever-tighter banking regulations push lenders to raise their levels of risk-weighted assets.

BY ELLIOT WILSON

In Coleridge's *Rime of the Ancient Mariner*, a group of shipwrecked sailors are left isolated and idled far from shore and wracked with thirst. Wherever they look they see water – yet they cannot drink a single salty drop of it.

Debt bankers, investors, issuers, and even financial regulators, must know the feeling. For these days, debt is everywhere, clogging up the machinery and lying stagnant in deep, illiquid pools. In every typical month more is issued than is redeemed, while less, as a share of the entire universe of active debt securities, is actively traded.

The world is literally swimming in debt, yet ever fewer funds, lenders, and investors actively see value in the simple process of buying, holding, and trading the stuff. Why is this – and more to the point, do any solutions to the market's malaise exist?

A few short years ago, market-making and proprietary trading worked together in reasonably sweet harmony. They acted like shock absorbers, smoothing price volatility, driving liquidity flows through the secondary markets, and instilling confidence in primary issuers. That confidence, and that liquidity, is now gone.

Most financial institutions simply cannot hold as much debt as they once did. Lenders in Europe and beyond are under increasing pressure from any number of regulators to boost their levels of risk-weighted assets, and to hold fewer liabilities on their books. Since 2008, the inventories of US corporate bonds held by broker-dealer banks has plunged to US\$50bn from US\$300bn, according to research from CQS International.

“With regulators asking banks and broker-dealers to create ever larger capital buffers, inventories have been going down, despite there being so much debt around in

A florist waits for customers at the Piedra Liza flower market in Lima
© REUTERS/Mariana Bazo

“You have a banking community with less and less balance sheet to deploy. The waning levels of liquidity out there, and the waning ability of the market to absorb shocks, merely exacerbate the threat of volatility”

the world,” said Jerome Legras, head of research at Paris-based Axiom Alternative Investments.

This is not a new phenomenon. Liquidity has long been a pressing issue for bond traders, investors and issuers. In part, this stems, as so much does, from the events of late 2008.

Deep mismatches

“The financial crisis deeply changed the way that market-making works,” said Eric Cherpion, global head of DCM syndicate at Societe Generale. “It created deep liquidity mismatches. And either due to risk management, or due to new or rising capital constraints, banks have less gunpowder at their disposal, so they need to be doubly convinced that they are stepping into the market, or into a debt security, at the right level.”

That in turn creates a clear mismatch, notes Axiom’s Legras, between what brokers can sell, and what traders can manage.

“Liquidity,” he said, “is becoming increasingly hard to find. It’s especially hard for major funds that manage hundreds of billions of dollars’ worth of bonds, and that may need to sell a few hundred million dollars’ worth of bonds in a day. That presents a challenge.”

As everyone is by now painfully aware, there are no simple answers to this conundrum. Rather, there are an awful lot of unpalatable solutions (some of which contradict other well-meaning solutions), and an even larger measure of unanswered questions, all of which pervade the thinking of regulators and traders constantly waiting for the next systemic crisis or flash crash.

The latest market spasm occurred in early May, when volatility in 10-year US Treasury yields hit levels not seen since last October.

There were differences between the two events. Last autumn’s so-called flash-crash was stoked by traders betting that US interest rates would stay low. This year’s bond rout, which briefly caused recalibrations of European sovereign debt, put a rocket under yields in US and German 10-year debt, forcing the market to judder and spasm.

Seeking culpability, traders returned to the source, blaming the market’s dearth of liquidity. This, of course, makes sense. If a security of any type has a willing seller but no willing buyers, one could argue against it having an intrinsic value.

“You have a banking community with less and less balance sheet to deploy,” said Charlie Diebel, head of rates strategy at Aviva Investors. “The waning levels of liquidity out there, and the waning ability of the market to absorb shocks, merely exacerbate the threat of volatility.”

Self-fulfilling

To many, the bond market’s woes are self-fulfilling. Volatility, the argument goes, begets volatility: the more there is of it, the greater the threat both to the bond market and to the wider financial economy.

“Everyone is nervous and jumpy, and no one holds the same position for very long,” notes Aviva Investors’ Diebel. “That fact, combined with a lack of prop trading, and a general shrinking in balance sheets that were once put to work on the sell-side, is working to make markets very skittish.”

Moreover, analysts and investors warn, these problems aren’t going away – and volatility is here to stay. “The jitters we’ve seen

lately in terms of price action is a feature we’re stuck with,” said a leading London-based DCM banker.

If that is really the case, everyone should be looking first to identify and define the problem, then to seek clear and coherent solutions.

To many, two clear threats exist: a surfeit of regulations, and a lack of balance sheet on the sell-side. These problems also appear linked, with the former leading directly to the latter. Ease off on the rules (while continuing to force financial institutions to be more responsible for their own actions) and the liquidity will return, the thinking goes.

Finding the right curve

Everyone from regulators to traders, investors to corporate treasurers, politicians to career bureaucrats, knows the bond market is ailing. The challenge lies in finding the right cure. Even here, arguments rage over how to form and foster liquidity, then to put it to work in the right ways. But how to achieve that?

At one level, European officials are painfully aware of the need to create a much deeper and far more liquid US-style market for debt securities. For years, lenders have been slowly shedding their holdings of bonds, particularly the higher-yielding variety.

“Reducing commercial banks’ share of corporate debt as a whole, and creating multiple points of entry for corporates into the markets, rather than solely via the banks, is a desirable objective,” said Etay Katz, a partner at Allen & Overy in London, who specialises in the impact of regulations on financial services providers.

“It’s healthy from the perspectives of competition and bank deleveraging, and in terms of the evolution of the investor base, so all the arrows should be pointing in that direction.”

Many hope that Europe’s proposed capital markets union, designed expressly to beef up non-bank finance, will boost liquidity, reduce volatility and cut financing costs, while further integrating the region’s capital markets.

Yet at the same time, Europe is stymieing its own ambition. Unsure whether to give freer rein to the region’s capital markets, EU officials continue to err on the side of caution. In March, the European Banking Authority launched a public consultation with the aim of seeking stricter limits on the exposure of regional banks to any shadow banking entity.

To a large slice of the watching public, burned by financial crisis and bank bailouts, this seems fair and reasonable. Why permit banks to shoulder yet more risk, simply to theoretically boost the liquidity of a financial instrument they may only vaguely understand.

Yet in so doing, the EBA is pre-emptively negating the positive impact that non-bank investors – dedicated bond funds, for example – would have on the wheezing debt markets.

“If we are saying that banks cannot have significant funding or trading relationships with a majority of non-regulated institutions such as funds, which are also the largest prospective investors, how on earth is Europe ever going to create a true, deep bond market,” said Katz.

“On the one hand, you have policy objectives designed to widen and deepen Europe’s bond markets,” he said. “On the other, there are rules being proposed that would reduce bond trading, and force banks and non-banks to retrench further.”

“So you have forces pulling us in opposite directions, which is counter-intuitive to the aims and ambitions of the capital markets union, and which threatens to further sap liquidity from the market.”

The challenges, then, remain as great as ever, particularly in fretful, jittery, cautious, protectionist old Europe, with its contradictory rules and its disinclination to act decisively.

So long as the region is burdened by politicians and regulators torn between fostering a truly liquid, investor-driven debt market and the desire always to protect the little guy, the region will remain awash with untradable, uncoveted, untouchable debt, clogging up the machinery and lying stagnant in deep, illiquid pools. ●



FINDING COMMON GROUND

With Europe's efforts to emulate the US financing regime, where corporate bonds are the norm rather than the exception, the regulation-bound, scaled-down banks are on a difficult path, but one heading in the right direction, thanks to the Capital Markets Union.

BY SOLOMON TEAGUE

Europe has long looked enviously at the US financing regime. There, about 70%–80% of debt finance is raised in the bond markets – roughly the proportion that is provided by bank loans in Europe, as is also the case in Asia. Capital Markets Union is Europe's latest attempt to edge towards the US model, shifting the burden of financing away from the bank market and on to the debt capital markets.

The US DCM culture is partly a product of its history. When its robber barons conquered the interior they needed more capital than its young banks were able to provide, forcing them to turn instead to private investors via the bond markets.

Having come of age in this environment, US corporates are used to issuing bonds, and the process that goes with it. In Europe, many corporate treasurers are accustomed to the far simpler process of arranging a loan with their bank manager. For them, the prospect of compiling a prospectus and going on roadshows seems more arduous.

Ultra-low rates mean that for those that can still secure a loan from a bank, that route is cheaper than issuing bonds in Europe. This may change over time, as it did, briefly, during the financial crisis. But even if it doesn't, corporates will still be better off diversifying away from the bank market.

"Financing on the capital markets will increase costs for borrowers, but this is not necessarily a bad thing if you get extra liquidity," said David Clark, chairman of the Wholesale Markets Brokers Association.

Ultimately, though, the initiative is less about the convenience of individual corporates than filling the vacuum created by the slimming down of Europe's banks.

Focused firepower

In today's world of expensive capital and KYC requirements, banks have to be selective about the loans they offer. Most are focusing their firepower on their biggest clients – the same clients, on the whole, that have the necessary scale and recognition to issue bonds in the current market. The European Commission is therefore eager to find ways to make it easier for SMEs to access the capital markets.

Europe has cultural, as well as legal and regulatory hurdles to overcome before its capital markets can truly flourish. This, in essence, is what the CMU is all about. According to the Commission's website, it will allow the Commission to "explore ways of reducing fragmentation in financial markets, diversifying financing sources, strengthening cross-border capital flows and improving access to finance for businesses, particularly SMEs".

As such, CMU is a process – a journey, rather than a destination. And it is arguably one Europe has been on for some time.

"We already have CMU to some extent, in effect regulations such as the Prospectus Directive, EMIR, MiFID, UCITS and Solvency II are its building blocks," said David Shearer, a partner at Norton Rose Fulbright. "There may not be many headline-grabbing reforms left to do. What is likely needed are lots of smaller changes to the nitty gritty of how things work, but these can be tough to implement at the European level."

Increasing intra-European harmonisation is a goal in itself. Some countries, such as France and the UK, have a relatively established DCM culture.

"In France we see 40% of financing done in the capital markets, compared with a European average of 25%," said Sebastien Palle, deputy head of public affairs at Societe Generale, responsible for drafting the bank's response to the CMU consultation paper.

"I think that is because of the universal bank model in France; banks do both lending and capital markets work and so can objectively advise their clients. Furthermore, French statistics show that capital markets financing and bank lending can develop alongside one another."

It remains to be seen how ambitious politicians will be in the pursuit of CMU.

Jennifer Berry watches the sunset from a lifeguard chair at a beach on Lake Calhoun in Minneapolis
© REUTERS/Eric Miller

“In the short term, there is scope for quick wins in things like improving the securitisation market, prospectuses, private placements and creating a better understanding of infrastructure financing. The question is whether it will have the ambition to tackle harder subjects like harmonising solvency law and tax”

“In the short term, there is scope for quick wins in things like improving the securitisation market, prospectuses, private placements and creating a better understanding of infrastructure financing. The question is whether it will have the ambition to tackle harder subjects like harmonising solvency law and tax,” said Palle.

The problem is that the questions being asked about CMU are deeply technical and while the Commission can set the direction of travel, it will fall to national governments and technocrats to complete the details. This is where the process of compromise, fudge and postponement for which Europe is so notorious kicks in.

Up for discussion

A key area is tax treatment.

“If a holding company is in one country but it has a subsidiary in another, will there be a tax arbitrage making it more efficient to borrow from one entity than the other? Ideally, it should make no difference, but that will be politically very difficult,” said Shearer.

Europe needs to offer the same kinds of tax advantages to investors buying bonds as the US does for its 401K plans, or for investing in municipal bonds, for example. While the UK has attempted something similar, it still falls short, while elsewhere in Europe a variety of different regimes are in place.

If investors can invest in bonds with no tax on the interest, principal or capital gains, it will generate more interest. If they can do the same across the continent, the advantages will be enjoyed by corporates in Estonia and Bulgaria as much as in the UK and Germany.

Another area particularly ripe for harmonisation is Europe’s disparate insolvency laws, which vary considerably between jurisdictions.

“There have been efforts to harmonise European insolvency regimes before but they have never made much progress,” said Shearer. “Instead, the focus has shifted to determining which country will have jurisdiction in each case. Bonds should charge a lower interest rate than a loan from a bank.”

And then there is the prospect of a greater level of coherence in the prospectuses drawn up by corporates across Europe looking to issue bonds. This would help investors compare credits across borders and level the playing field for issuers in different countries.

Shearer said: “The Prospectus Directive III could be the flagship for CMU, the consultation for it asks some existential questions such as whether we should even have prospectuses. We could certainly see some modernising of the passporting regime for prospectuses, to make prospectuses more truly pan-European.”

Whether all of this is going to revolutionise SMEs’ access to the capital markets is still debatable. There is a big question about how SMEs can get the ratings they need to raise capital in the bond markets. But the more philosophical question is whether Europe is looking to the old world for solutions that are better solved in new, innovative ways.

“We are seeing real innovation in the peer-to-peer lending space and it may be that is where the solution to Europe’s SME financing problems lies,” said Shearer. “But that opens up a new debate about whether that needs equivalent regulation [to securities offerings] and if so, does that choke off the very innovation in SME financing that Europe needs?”

Securitisation situation

There is also some debate around the role securitisation will play in financing SMEs. For some it is potentially crucial.

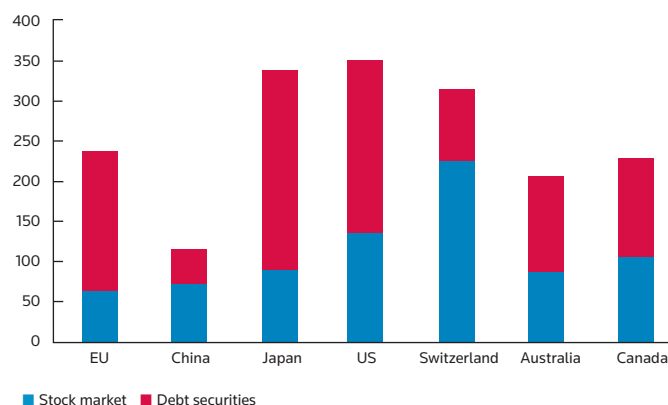
“SMEs need a European securitisation market and that means, as controversial as it is, serious consideration needs to be given to reviving the originate to distribute model,” said Shearer. “We may need to accept that there will be the occasional blow-up and junior tranches may not always perform that well, but not making the regulatory capital treatment punitive, so that it is economic for institutions to buy them.”

But others believe its potential is overdone. “I believe securitisation will play more of a role for assets such as real estate than for SMEs,” said Palle. “There is still a lot of work to be done for the securitisation market for SMEs to get off the ground, even in the US. In particular, it is crucial to set up a private European network to gather information on the quality of such assets.”

Whether securitisation takes centre stage or not, if CMU achieves even some of the reforms currently envisaged, European DCM will be the better for it, and at least some SMEs will find the route to market clearer than before.

STOCK MARKET CAPITALISATION AND DEBT SECURITIES

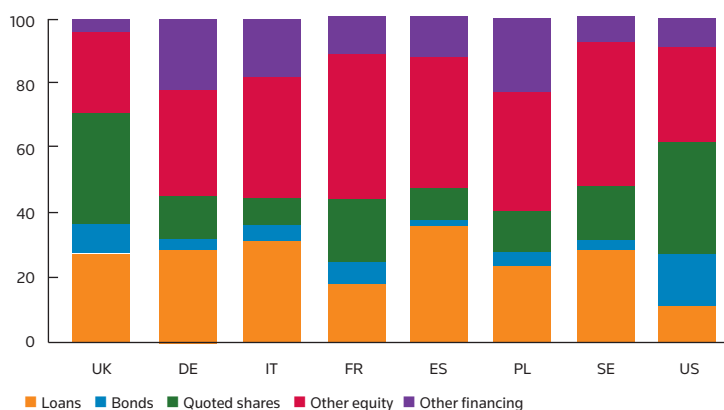
% OF GDP



Source: ECMI statistical package

FINANCING PATTERNS CORPORATES

% OF TOTAL LIABILITIES



Source: Eurostat, OECD.

Note: Loans include bank loans and intercompany loans

Regulatory union

But while there are many helpful proposals up for discussion, the Commission has also been criticised for measures not being considered.

“CMU has navigated right around the issue of derivatives, which is surprising,” said Alex McDonald, CEO of the WMBA. Especially as CMU will actually increase corporates’ need for risk management tools like derivatives to hedge their bond exposures.

“Other regulations like MiFID, EMIR and Dodd-Frank in the US specifically cover derivatives, especially in terms of clearing and margins, making them more expensive,” said McDonald. “If derivatives were brought into the scope of CMU it could be viewed as endorsing their social worth. However, since most bonds are issued with a derivatives hedge or transposition, it’s hard to see the rationale for leaving them out unless it was a political decision.”

This has led to some questions about the coherence of Europe’s financial regulation strategy.

“Banking structure reform and the financial transactions tax weaken European market-making and fragment the market in the eurozone, just as CMU is supposed to be harmonising it. It is difficult to understand where European financial regulation is going when there is this fundamental contradiction,” said Palle.

In its response to the Commission’s paper, the International Capital Markets Association said: “The more transactions are subject to FTT and the higher the effective rate of any FTT that is imposed, the more this will serve to impede the effective use of the affected transactions in order to advance the objectives of CMU.

“Whether the FTT is on fixed-income securities, equities or derivatives, study after study shows that there will be a significant negative impact as a result of increased economic financing costs, which will largely have to be borne by investors.”

“We are seeing real innovation in the peer-to-peer lending space and it may be that is where the solution to Europe’s SME financing problems lies”

Derivatives are just one good example of this confused thinking. Infrastructure finance is another.

“CMU seeks to make it easier for infrastructure projects to get financing, the European Commission has said this is very important,” said Palle. “And yet Basel’s prudential requirements make it very difficult; they do not fairly reflect the risks. We need to think hard about achieving consistency in European financial regulation.”

Sand in the wheels

McDonald said: “We need a liquid, yet heterogeneous and transparent bond market. Certain provisions of regulations like MiFID and the financial transactions tax throw sand into the wheels of that goal, for example pushing issuers towards certain currencies and tenors, making it harder to be flexible.

“Let’s use CMU as an opportunity to improve our interpretation of MiFID. After all, regulation is not set in stone; in the US we have already seen the interpretation of Dodd-Frank changing in response to problems that have arisen.”

Given the scope of the changes being discussed, and the prospect of some of these concerns being tackled following the consultation, it is impossible to predict in what direction CMU will go. It will probably take 10 years or more for Europe to achieve the kind of CMU currently being envisaged. Even if it doesn’t get there, the exercise should pay dividends. Any improvement to the market is worth making.

It is also an opportunity for Europe’s new regulatory bodies to come of age.

“European regulators have been given a lot of powers, which they still mostly do not use,” said Palle. “If they [European regulators] make full use of their powers and are aggressive in resolving fragmentation issues, there is no reason why we cannot achieve CMU without any new transfer of powers to European regulators.”

The cynics will always harbour doubts about Europe’s ability to get anything done. Certainly, it will be a challenge encouraging nations to cede control of things such as tax and insolvency law. But Palle is optimistic, citing the experience SG had internally in a working group on insolvency.

There were some areas where the retail bank and the investment bank had complementary views, and others where there were fundamental differences, he said.

“Ultimately, we arrived at a single position, which was a very positive result. That made me more positive that such an agreement can be reached between countries in Europe,” said Palle.

“I believe Europe is keen to do this but it is easy to imagine it being shelved if bigger events divert attention away from it,” said Shearer.

“It is not the sort of thing that the average voter wakes up thinking about. It would be easier to achieve if it was one big initiative, but it is likely to be a series of smaller ones and it will be hard for the Commission to maintain its focus.”

But Clark is more upbeat. “CMU taps into a lot of the common ground that exists between European member states,” he said. “It is likely to have broad support across all EU countries and thus had a good chance of being realised.” ●



SHOOTS AND SCORES

New-issuance of Green bonds is lagging over-enthusiastic targets set last year but the market continues to grow in stature.

BY KEITH MULLIN

If anything underlines the growing stature of the Green bond market and cements its longevity beyond basic primary flows, it's the move towards transparent standards, and the emergence of a more evolved ecosystem that includes dedicated funds and the proliferation of major investment commitments, plus the availability of analytical tools and services such as indices.

The Green bond market reached two milestones in March this year that pushed the cause of transparency and a hardening towards consensus standards: the first anniversary of the Green Bond Principles (GBP) and the paper Green Bonds: Working Towards a Harmonized Framework for Impact Reporting, for projects to which Green bond proceeds have been allocated. The 2015

update to the GBP certainly articulated a clear direction of travel for the market that points towards ring-fencing of proceeds, creation of sub-accounts, moves towards more rigorous project selection and tangible impact reporting.

Market participants continue to be nervous about setting standards that are so high that they stifle issuance but as they stand, the GBP are what one banker defined as "the universally acknowledged necessary and minimum conditions for defining a Green bond". A more transparent framework will help silence cynics and sceptics who are still out there, and will engender growing support for Green bonds as a component of an active strategy to reach global climate-change mitigation targets.

As for buy-side patronage, news has come thick and fast. Mirova announced the launch of a global Green

A woman wearing a dress of fresh flowers during media day at the Chelsea Flower Show
© REUTERS/
Stefan Wermuth



bond fund in June; KfW said in April it would start buying Green bonds in the second quarter with the aim of reaching a portfolio size of €1bn; in February Deutsche Bank said it would invest €1bn in a portfolio of high-quality liquid assets in Green bond format as part of its liquidity reserve investment.

Deutsche's plans echo Barclays' announcement last September that it would invest a minimum of £1bn in Green bonds by November as part of its liquid assets buffer. Zurich Insurance, an early mover in this space, raised its investment target in Green bonds to US\$2bn, while several other firms are putting the finishing touches to their criteria for Green bond investments.

Increased buy-side interest is certainly a shot in the arm for the market although it is putting increased pressure on the investment banks to create supply. The fact that this was somewhat subdued through the first half of 2015 is a hot topic of conversation.

On the plus side, the Green bond market has seen issuance to-date across some 18 currencies in fixed and floating-rate, convertible, stock index-linked, securitised and project bond formats; structures targeted to retail as well as institutional interest; the full range of short and long-dated maturities and an increasingly global issuer base across multiple geographies and industry sectors.

Analytical tools

These developments speak to the increasing depth of this emerging market and throw into sharp relief the greater potential levels of activity that beckon. The arrival of benchmarking and screening tools, such as Green bond indices, is also vital because they will drive more productisation. This will allow a more heterogeneous set

of players to find entry points into the market in a manner that suits multiple investing styles and builds towards multiple outcomes.

The Barclays/MSCI Green bond index family that was launched in November 2014, for example, added an independent and objective overlay to offer investors greater comfort around the market. Evaluations are conducted along the four key dimensions: use and management of proceeds, project evaluation and reporting. Speaking to the productisation point, State Street Global Advisors launched its Global Green Bond Index Fund in May 2015, claiming it as the first UCITS-compliant mutual fund tracking the Barclays MSCI Green Bond Index. MSCI has also had various incoming enquiries about Green debt ETFs.

"We did a pretty lengthy consultation to get a feel for what the main challenges were; to gauge investors' expectations and provide some clarity to investors, to issuers and to the market more generally about what constitutes a Green bond and to draw some lines around the market," said Laura Nishikawa, executive director at MSCI, speaking about the development of the index. "Investors' views may differ, but our definitions drew a line in the sand and at the very least formed the basis of a conversation.

"My take has always been that standards will continue to emerge over time but we needed something transparent, something easy to understand and somewhere basic to start. We didn't want the standards to be so out of reach that they wouldn't be attainable," she added.

At this stage, the index is used for informational purposes but as the market develops, expectations are that it will morph more into a benchmarking tool. As well as labelled Green bonds, it includes unlabelled issuance by pure-play renewable energy companies (as long as they derive at least 90% of their turnover in the qualifying categories) as well as qualifying securitised issuance and project bonds.

Assurance

The index used the GBP as a starting point. "One of the main pieces of feedback we got from investors was concern around potential greenwashing or potential abuse of the Green bond term by issuers as the market started to diversify away from supranationals towards corporates and other types of issuers. They wanted to know if there was some sort of additional insurance or additional evaluation of those bonds," Nishikawa said.

The reporting piece is a key element of the index's utility. Given where we are in the cycle of Green bond issuance, the first waves of reporting have started to roll in since the end of Q1. "The sceptic in me wondered if we would see any reports at all this year but we are starting to see some. While some reporting has exceeded our expectations, some hasn't gone as far as we would have hoped. But as long as there is some indication of use of proceeds and an update on project-level reporting that's useful," Nishikawa said.

The growing transparency of the market – notwithstanding the standards are voluntary and still allow for some paler shades to be marketed as Green bonds – is certainly helping assuage concerns around greenwashing. Those concerns will likely never be fully expunged even though in truth there's little evidence to-date that it's a real issue. But heightened scrutiny will be

“My take has always been that standards will continue to emerge over time but we needed something transparent, something easy to understand and somewhere basic to start. We didn’t want the standards to be so out of reach that they wouldn’t be attainable”

helpful in that it will help to keep the market on the straight and narrow.

“The market is still in its very early stages – it’s only really 18 months since the big wave of issuance by non-SSA borrowers. Given how many investors there are with different views and philosophies, and how many jurisdictions are involved, each with their own take on environmental, social and governance matters, it isn’t at all surprising that the Green bond market is still working towards building a robust framework for issuance,” said Stephanie Sfakianos, head of sustainable capital markets (fixed-income) at BNP Paribas.

“There is still debate about what is dark green, light green or simply not green so it’s no simple matter for investors to formulate policies for establishing specific Green bond funds with detailed environmental criteria,” she added.

Here to stay

Given the developments seen to-date, talk that the market is a gimmick and could wither and die once issuers have squeezed dry the marketing benefits of a single issue look to be wide of the mark. The demand-supply imbalance bodes extremely well in these current market conditions for superior performance over conventional bonds. That creates a virtuous circle and an attractive option for issuers that have appropriate projects to fund, with an added benefit of buy-side diversification into the bargain via penetration of the ethical and ESG universe.

As well as a flow of new issuers, repeat issuers are also starting to build as the investor pool expands and the market solidifies. “The market probably has to take a couple of steps forward before issuers are concerned about building a second [green] curve but there are already examples of repeat issuers,” said Jonathan Weinberger, head of capital markets engineering at Societe Generale.

“If ESG considerations are integrated into your business, it makes sense to continue to use the structure. Certainly, there are fixed costs associated with issuing the first Green bond but that makes subsequent Green bond issuance relatively less expensive from an administrative point of view.”

The debate about burden-sharing between issuers, investors and other players in the environmental finance ecosystem to cover the potentially weighty costs of issuing and maintaining Green bond programmes is likely to continue.

At this juncture, investors will not contemplate wearing a discount to hold Green bonds. This will deter some issuers from the market but on the flip side, investor screening, project assessment and general due diligence

also have their costs. Some participants say the fact that Green bonds price flat to senior is already a sign of buy-side burden-sharing.

Whither US\$100bn?

At just under US\$15bn by mid-June, primary issuance levels were not keeping pace with the slightly exaggerated US\$100bn number thrown out in late 2014 as a target for this year by market participants arguably over-enthused at how quickly the market had built to that point. Some bankers reckon the second half of the year will be busy, which should push the market closer to that target, although not all agree.

Bearing in mind the 20% decline in overall global DCM volumes year-over-year and in the wake of government bond yield volatility and rate uncertainty, missing that target should not be seen as too much of an issue. Nor should the slightly “out there” target of US\$1trn in annual issuance by 2020 be seen as anything other than purely aspirational.

“The pace of issuance this year has not been as fast as many people had hoped but total issuance volumes are only one measure of the market. What is equally important is the composition of issuance that emerges. We are seeing more issuance that is tailored to specific investor needs across issuers, currencies and products in addition to issuers also working to ensure the integrity of their processes thus working to have sufficient eligible assets before funding. There are lots of different reasons for the lower total issuance volumes seen year-to-date but I don’t believe it should be a problem necessarily,” said Susan Barron, managing director in EMEA SSAR origination at Barclays.

“Or is it because they have chosen to be more rigorous in their approach, so instead of doing US\$500m they’ve done US\$250m? There are lots of different reasons although I don’t think it should be a problem necessarily.”

Bankers give various reasons they think are behind the slow pace of issuance in 2015. One is division around the role of social finance, which might speak to why issuance is lower than some people estimated.

“Some investors have a very sensible view of the facts: that there are many funding instruments in the world that are doing the work that the GBP wants to see done – namely funding projects that will be net CO2 reductive. But they are not all labelled as Green bonds because they are either in the form of loans or in the project space and project borrowers haven’t felt it terribly important to attach the Green bond label,” said Weinberger.

“Part of the issue is the question of what one gets by self-labelling. Self-labelling is great for people who have a communications strategy that can be tied to the funding. But, for many borrowers, that communications goal isn’t essential or isn’t deemed necessary. So you have bonds out there that are doing the work of a Green bond without calling themselves that and that is fine.

“If there is no compelling financial reason to do it, there are many borrowers who could issue Green bonds who simply choose not to. As long as the funds are going in the right place I don’t think any of us should be concerned,” Weinberger added.

Globalisation

If 2014 saw explosive growth not just in deal volumes but perhaps more importantly in the diversity of the issuer

base into the corporate sector, this year the market is seeing an equally important process of globalisation of issuance away from the European issuer base that tapped the corporate segment of the market for size in 2014.

Issuance continues to be driven by supranationals, agencies and municipalities – and that is likely to continue as there is a natural fit with the articles of incorporation of issuers such as the EIB, World Bank/IFC, EBRD, KfW and ADB and the environmental and sustainable principles that drive their core functions.

What is surprising is the lack of any sign of sovereign issuance. A liquid Green sovereign benchmark would certainly perk the market up at the same time as it would reinforce environmental credentials. DCM originators are nonplussed by the absence of sovereign borrowers but have had little luck in getting any into the formal pipeline. Likely early potential candidates for Green sovereign or quasi-sovereign bonds include Sweden and France; the US is also very keen on the idea and could come out with some sort of Treasury-linked or US agency bond.

“There is more awareness of sovereigns around the Green bond topic. What started more from an investment perspective, may see further expansion into other areas. It’s an interesting one to watch,” said Barclays’ Barron.

Diversity

SSAR may be in the driving seat but corporates now account for around a third of sustainable debt issuance and the market has seen some promising issuance from a host of interesting names and sectors: Peruvian wind farm developer Energia Eolica (a US\$204m 20-year amortising private placement and the first Green bond from Latin America); Yes Bank, the first Indian issuer with a Rs5bn issue in February; Export-Import Bank of India (the inaugural Indian issuer in US dollars – US\$500m in March), and the inaugural Green covered bond from Berlin Hyp (a €500m Pfandbrief).

Other issuance worthy of note includes the first Brazilian Green bond (€500m for BRF), the first Green BeLux bond from waste management company and repeat issuer Shanks Group; the first Green bond out of Eastern Europe (€50m for Estonian renewable energy company 4 Energia) followed in short order by a €75m line from neighbouring Latvenergo; and the chunky €1bn two-tranche outing for Dutch electricity transmission company TenneT.

In high-yield, we saw the inaugural outing of the US (NRG Yield for US\$500m last August) followed by the debut European offering, from Spanish renewable energy company Abengoa (€500m in euro and dollar notes). Others have followed in their wake. On the cards are Green sukuk – Dubai or Malaysia set to debut – while nuclear-related issuance out of China that’s talked about at some point will provide a fascinating talking point and will be a key test of the market’s resilience and elasticity.

These examples all represent examples of what the market can achieve and how quickly it can blossom. Of course, any new market will be able to point to firsts of all sorts so the debuts shouldn’t be taken out of context. And to be fair, not all issues have received the same kind of rapturous reception but that’s a function of timing and the nature of bond markets.

The Shanks deal showed that banks can mobilise retail demand to boost the institutional dimension: of the €100m total size, BNP Paribas generated retail and private banking demand of almost €47m via 2,894 orders. As

debate in Europe shifts towards the mobilisation of retail savings as Capital Markets Union evolves, the climate theme could provide a promising avenue for environmental productisation.

The market is divided about the emergence of more corporates. “It seems some corporates are not at this stage completely persuaded of the advantages of tapping the Green bond market for a number of reasons: for a start there is no pricing advantage relative to senior debt and this is unlikely to change any time soon. Absent a pricing advantage, some issuers are deterred by the work required to identify projects with which to support a transaction, the cost in terms of management time and the fees payable to third parties such as verification agents and auditors’ fees for monitoring use of proceeds,” said BNPP’s Sfakianos.

“Not all companies can see an obvious set of projects with which to support a sustainable/Green bond. On the other hand, companies that have the strongest environmental credentials often argue that everything they do is Green so a labelled Green bond adds limited value,” she added.

Barclays’ Barron echoes the comments about financeable projects but is optimistic about the corporate landscape. “In previous years, corporates have been sizeable contributors to the total issuance. While existing issuers continue to ensure that they have sufficient projects and eligible assets to fund, several also announced broader corporate responsibility frameworks at the time of their initial issues, which would provide for more deals in the future,” she said. “Increased awareness of the market is also creating opportunities for smaller corporates, particularly in developing markets, to look at the possibility of accessing the market. Here (as with existing issuers), it remains important to take the time to make sure that they do everything correctly.”

FIG

The one area of the market that market participants do expect to pick up significantly is the FIG sector. At present, Credit Agricole is the clear stand-out Green bond issuer, with some 27 lines out there across 10 currencies. National Australia Bank, ANZ Bank, ABN AMRO and Bank of America Merrill Lynch among others have printed trades and FIG visible supply will build.

“FIG issuance will be an important source of supply over time. Banks are a natural borrower base because they have internalised for many years the sorts of review and monitoring processes that would substantiate a Green bond,” said SG’s Weinberger. “They are well positioned because they are aware of the assets that they can fund such an instrument with and because they are a pretty well positioned in general to report on the environmental impacts as well.”

If the US has been something of a surprising laggard generally in the development of the Green bond market, the one area it arguably leads is on the municipal side, where a number of cities and state authorities have tapped the market in greater numbers than seen in EMEA. Ditto the universities sector. Both segments offer huge promise.

And talking of laggards, the market has yet to see Asia flex its Green muscles: market participants say the prospects for issuance are positive, Japan is mentioned as a potential growth area but the really mouth-watering opportunities will come out of China and India as their governments increasingly get behind the Green agenda. ●



STILL NOT FULL

Regulatory change means a never-ending process of recapitalisation for banks. Treasurers are grappling with a new wave of acronyms and gorging on CoCo debt but without quite knowing the rules of engagement.

BY ELLIOT WILSON

“I’m here to tell you something my friend, you can eat and eat and eat, but nothing will ever fill that void.” So declared Brad Pitt on the perils of over-eating in his cameo as fat-buster Will in *Friends* – but the message may also ring true for bank execs and treasurers around the world.

Since the near-catastrophic events of 2008 when the world teetered on the brink, banks have been forced to pile on the capital, hoping it would assuage regulators, only to be faced with another round of regulations.

Some rules were dedicated to protecting entire economies from the failure of oversized lenders. Others merely imposed new layers of transparency,

illuminating a once opaque industry but trimming profits at hard-up financial institutions. Either way, whatever new legislation was heaped upon their staggering frames, it was never quite enough.

Enter TLAC

The Basel-based Financial Stability Board’s new rules, first unveiled in November 2014 at the meeting of the G20 group of nations in Brisbane, propose a minimum total loss-absorbing capacity on 27 global systemically important banks, or G-Sibs.

Each of the tagged institutions (for now the list excludes China’s largest banks), from Wells Fargo to HSBC and Mizuho to Credit Suisse, will need to hold more equity and convertible debt, the better to absorb losses in the event of future crises.

A man looks at a pig walking out from where it sleeps in Taipei
© REUTERS/Pichi Chuang

The FSB's message was clear: no bank deemed too big to fail would ever again be bailed out by the taxpayer; during future crises, the buck would have to stop at the front door of the bank's HQ.

TLAC remains a work in progress, despite the emergence of a more complete set of laws in February. It offers lenders and the wider financial industry only "a tentative set of rules", said Jonathan Weinberger, head of capital markets engineering at Societe Generale.

"We're still waiting for more specificity to emerge. For now, the way to think of TLAC is that it is designed specifically to insulate taxpayers from the consequence of future bank failures. That is how it primarily differs from other new post-crisis bank regulations."

Banks, almost certainly, will be forced into (yet another) round of capital raising, notably in the form of Additional Tier 1 and Tier 2 debt. Lenders will also likely have to increase their Common Equity Tier 1 ratios, while topping up on long-term unsecured debt, all of which will be designed to be easily written down or converted into equity during moments of internal or existential crisis.

But this is where it starts to get fiddly. Some bonds will be disqualified from the new rules, such as Tier 2 bonds with less than five years left to maturity. TLAC also goes way beyond the strictures of Basel III, under which banks will be required to have a minimum total capital ratio of 10.5% in place by 2019 or higher in some jurisdictions.

Under the new rules, G-Sibs will need to have a buffer of between 16% and 20% of the bank's entire risk-weighted assets in place, comprised mostly of a lender's loan book.

Me too

No single regulator wants to be at the mercy of another. So it was that just 12 days after TLAC's introduction, European legislators unveiled their own version. The European Banking Authority's minimum requirement for own funds and eligible liabilities (MREL) offered the world more than just another unappetising acronym and a new set of financial rules by which to abide.

It was also designed to make credit institutions and large investment firms more resilient, and to ensure they have sufficient loss-absorbing capacity to allow resolution instruments, including the bail-in tool, to be applied more effectively.

The two standards are likely to be different beasts. One divergence will be timing. MREL will be introduced in 2016, though full compliance is likely to be phased in by January 2020. TLAC is unlikely to be imposed fully before 2019, in line with Basel III.

Rules girding both remain ambiguous, and even a little messy. For now, said SG's Weinberger, "everyone is dealing with the uncertainty by trying to deduce what the regulators might want. Everything will be about timing, implementation, and how financial institutions will adapt their capital-raising programmes to the new laws".

MREL is destined to be the junior member of the team. It was born later in large part because "no one wanted the two forms of new legislation to be in conflict with one another", said Robert Montague, a senior investment analyst at ECM Asset Management.

The assumption is that over time, the two will become one, most likely with MREL being absorbed into, and taken over by, its elder sibling. "Whether explicitly or implicitly, it's assumed that MREL's standards will migrate upward into TLAC's," said SG's Weinberger.

"You will see a race-to-the-top approach taken by regulators, where they will likely see TLAC as setting a very high bar for too-big-to-fail lenders, and MREL posting a lower bar. So inevitably you'll see a migration up into TLAC."

Small but important

There is a logical force of reasoning behind MREL: this isn't just another power grab by an insecure European regulator desperate for global relevance. Europe is crowded with smaller lenders with little

or no wider systemic importance. Yet the London-based EBA recognises that these institutions, ranging from regional Spanish savings banks to veteran Italian lenders, could still undermine their own economies – or the broader European project – during a point of future economic disarray.

Better, or so the thinking goes, to outline rules designed to protect taxpayers against future bank failures while the chance still exists. And while TLAC is a one-size-fits-all slab of rules, every European lender will be handed its own unique set of MREL guidelines.

How much? Of what?

The biggest ongoing challenge for lenders will be to determine how much capital they need to raise, and what form it should take. Neither of these decisions will be simple. Typically, the bigger a bank's deposit base, the more additional capital it will be forced to raise. HSBC is expected to need around US\$50bn to become TLAC-compliant, with Barclays needing US\$20bn. Citigroup reckons that European lenders alone will need to raise up to €300bn in additional funding between now and the end of the decade.

The source of the funding is equally tricky, not least because both sets of rules remain so nebulous.

Up to 2.5% of additional TLAC-eligible capital can consist of standard senior debt. That leaves banks needing to raise at least 5.5% (over and above the 8% Basel III capital requirements) to hit their minimum RWA target of 16%. A typical global lender with risk-weighted assets of US\$500bn will thus need to raise around US\$30bn in extra capital, according to SG estimates.

Some European lenders are already hard at work in the capital markets. In February and March, Deutsche Bank, SG and BNP Paribas issued 10-year Tier 2 subordinated bonds, every cent of which was TLAC-eligible and Basel III-compliant. Credit Agricole raised €3bn-equivalent from its 12-year Tier 2 bullet in March.

The next challenge for lenders will be how to make more of their capital both TLAC and MREL-compatible. So far, European nations have opted for various approaches to the dilemma of how to make more existing or new capital comply with the incoming rules.

A simple solution

Swiss and British banks have opted to issue Tier 2 debt at the holding company level, making it more easily bailed-in. Spanish regulators, unsure how or whether to apply bail-in to retail bonds, are seeking to create a new layer of capital (so-called Tier 3 debt) which would slot in between junior and senior debt.

Jerome Legras, head of research at Paris-based Axiom Alternative Investments, is not alone in believing that a new species of debt instrument would "just complicate matters and turn everything into more of a nightmare".

The most likely outcome will see Europe align, as is so often the case, to Teutonic logic. In March, Germany's finance ministry proposed amending the order in which creditors are paid when a bank fails. Senior unsecured bonds would be relegated, becoming subordinate to other senior liabilities, such as derivatives and unsecured deposits, and thus easier to write down in a crisis.

Legras hailed Germany's plan as "simple and straightforward. It creates a law that completely changes the hierarchy of payments, while making all senior liabilities TLAC-eligible overnight".

ECM Asset Management's Montague said the German model "offers a blueprint for everyone. It's a neat solution to the prevailing problem, particularly for mutual banks that cannot set up holdco structures, and is likely to be adopted elsewhere".

A simple, sensible, capital markets solution to a potentially migraine-inducing problem, to which all or most European countries are happy to cleave – whatever next? ●



LAME DUCK LEARNS TO FLY

The launch of the ECB's quantitative easing programme had the desired effect on the markets, pushing yields down and offering room to breathe, while also diverting investors into riskier assets.

BY ELLIOT WILSON

It was the best of years, it was the worst of years. It was the age of constancy, it was the age of disorder. Since the European Central Bank announced the launch of its long-awaited €1.1trn quantitative easing programme in late January, the markets haven't quite known what to do, swinging wildly first one way then the other like a punch-drunk boxer.

At first, stimulus offered the market room to breathe and grow. QE was well-flagged and well-received. After its official launch in March, bond prices rose sharply. Yields, notably on German Bunds, fell to fresh historic lows, turning negative on some shorter tenored debt. Issuance rose in lockstep, with corporate debt sales totalling €176.9bn in the current year to May 26, up 31% on an annualised basis, according to Thomson Reuters data.

Most corners of the market improved versus 2014, bar sovereign debt issuance, which was virtually flat on last year's data over the same period. That constituted less of a surprise, given that stimulus was designed, said

Charlie Diebel, head of rates strategy at Aviva Investors, "to make government bonds unattractive for investment, so money flows into equities and also into the provision of credit to the real economy".

True to form, yields remained grindingly low well into the fifth month of the year. On May 7, Spain sold €885m worth of five-year bonds with an average rate of return of a 0.286%, the first time Madrid had printed medium-term debt with a negative interest rate since the onset of the eurozone debt crisis. Daily volumes in eurozone government bonds were around a third higher than normal in the first quarter of 2015, according to MarketAxess.

Stimulus also successfully re-engaged investors with the concept of risk, diverting them "away from core government bonds and into riskier assets such as peripheral European government bonds and corporate bonds", said David Zahn, head of European fixed income at Franklin Templeton Investments. In the year to May 26, the volume of corporate hybrid prints rose more than 50% year-on-year, reaching €13.14bn, according to Thomson Reuters.

Jonas Sandell of Sweden soars through the air during his training jump in the men's large hill individual ski jumping event at the Nordic World Ski Championships in Falun
© REUTERS/Kai Pfaffenbach

Search for yield

Portfolio flows into developing market securities hit US\$35bn in April, with most of the fresh capital being diverted towards Asia and equities, according to the Institute of International Finance.

"The impetus behind lowering rates even more seems to be attracting foreign issuers into this market and forcing investors in Europe to go along the credit spectrum and look for things that provide higher yield," said Peter Noble, a partner at Norton Rose Fulbright.

"You've seen an acceleration in corporate hybrid issuance and high-yield debt issuance across Europe. With ultra-low rates, people will buy anything that offers a decent return."

Maturities stretched in lockstep with stimulus. Peripheral eurozone sovereigns found themselves issuing debt maturing in the late 2040s. The tale was the same told last year, when monetary stimulus and ultra-low rates set in motion a desperate hunt for yield. The only difference, it seemed, was the source of the stimulus, with Frankfurt replacing Washington.

Indeed, it was hard to think of a more stunningly effective and simple riposte to those who believed the eurozone to be a permanently lamed duck.

Stimulus has, said Aviva Investors' Diebel, "had a profound effect in terms of yield compression at the front end of the curve. But equally the recent correction in prices, and the increase in term premia, highlight that there is a degree of growing belief that over time the QE policy will work and gradually reflate the economy."

Along the risk curve

Marcus Svedberg, chief economist at emerging market investment manager East Capital, said the search for yield was "pushing investors further out on the risk curve. The fact that not only developed market sovereign bonds with short maturities but also longer maturities and emerging market sovereigns are being sold at negative rates, are good illustrations of this trade".

The latter point may offer a touch too much hyperbole: most eurozone states are still blighted by low growth and troublingly high unemployment, notably when it comes to younger workers – a point made by ECB president Mario Draghi at a May meeting of central bank officials in Portugal.

Ultra-loose monetary policy can only do so much, Draghi said, urging his sovereign peers to unleash a new round of structural reforms in order to realise the region's "untapped potential".

One clear and immediate benefit of stimulus was its success in unleashing the region's bond markets.

"This was probably the best time ever in the eurozone to issue debt – and certainly since the financial crisis," said Jerome Legras, head of research at Axiom Alternative Investments, which invests in securities issued by European financial institutions.

In the early months of the year, blue-chip corporates lined up to print euro-denominated bonds in an effort to lock in record-low rates. The list included regular issuers such as Germany's Volkswagen, but also ranged across the US corporate universe, including such diverse names as Coca-Cola, Berkshire Hathaway, and pharma major Bristol-Myers Squibb.

Despite a slowdown in euro issuance by US firms in late April and early May, Eric Cherpion, global head of DCM syndicate at Societe Generale, believes this theme is here to stay.

"US corporate sales in the first quarter were not purely" due to record-low rates, he said. "You'll see US firms comprise between 20% and 25% of all euro-denominated corporate debt volumes this year, against 10% in most years, with the figure stabilising at that level heading into next year."

For many issuers, the only lingering question remained what to do with all that money.

"If you have financing needs – say, if you were planning to expand into a new emerging market – then you have an excuse to raise capital," said Axiom's Legras. "Even if you don't, there are always share buybacks to do. From a purely financial point of view, thanks to stimulus, there was no good reason for issuers not to print fresh debt. With rates at the lowest level ever across the eurozone, the decision to print bonds seems a pretty easy one."

Trigger event

But then the market turned. Sometimes when this happens, there's a trigger event – witness BP's £7.2bn 1987 follow-on equity offering, which presaged Black Wednesday. This time the market simply seemed to hit a wall.

Longer-dated prints became harder to sell. A few sales offering chunky yields struggled to get off the ground. On May 14, Italian construction firm Condotte d'Acqua postponed a high-yield sale after a week of hectic marketing, despite scaling it down by a third and upsizing the yield.

"A lot of the selling in the European market was driven by American investors, worried by losing profit in a higher US interest-rate environment," said David Owen, chief European economist at Jefferies. The market had also struggled to absorb the surge in new euro-denominated bond sales.

"Indigestion suggested that issuers printed too much debt, too quickly. Another factor was higher German inflation, which served to spook investors," Owen said.

Ten-year German Bund yields, having ground to record lows, suddenly surged, with equivalent-maturity Italian and Spanish yields also spiking.

To Aviva Investors' Diebel, the early-May sell-off (which hit all major bond markets) highlighted the market's underlying volatility. "It has been a year of two halves," he said. "After QE was introduced, the market was looking pretty good. Then came the correction. Suddenly, investors were looking at deals with far greater scrutiny."

One notable shift since the dark days of early May has been an antipathy towards longer-dated bonds. Issuers had begun to take yields to ever-longer ends of the curve – to places, noted one debt capital markets banker, "where investors weren't even remotely interested. Investors were being asked to buy 15-year bonds with yields well below 1.5%. And Bunds were offering a handful of basis points at a time when other factors supporting a low-yield environment – a weaker US dollar, a stabilising oil price – were going into reverse."

So what can the debt markets expect next? Some fear a sustained lull in eurozone bond issuance. That would explain the ECB's announcement that it would increase its rate of asset purchases until mid-July, before paring back purchases through the summer months. Jefferies' Owen tips bond issuance in the eurozone to ebb going forward.

"Issuers have frontloaded debt, so there is less to print in the second half of the year, which is also another argument in favour of us seeing greater spread convergence," he said.

Others, not unreasonably, expect debt issuance to simply and quietly tick up again as we head into the second half of the year.

"Yields are still very low so issuance still looks very appealing," said Aviva Investors' Diebel. "I don't think we need to worry about QE maturing any time soon. We have another 15 months of buying before this programme completes."

Said Norton Rose Fulbright's Noble: "So long as QE continues, we'll see a continuation of the same themes that we saw being played out in the first four months of the year. Investors will buy more higher-yielding debt, and we'll likely see more capital being raised by corporates and emerging market and some eurozone sovereigns.

"Despite the recent bond rout, and despite the topsy-turvy year we've had so far, this will remain a great time to be selling euro-denominated bonds, in the short and the medium term." ●



ON THE BOIL

Has the recent relaxation of investment rules in Taiwan ushered in an issuance bonanza in offshore currencies from the country, or is it just an arbitrage-driven flash in the pan?

BY JONATHAN ROGERS

Regulatory change in 2014 involving a reclassification of Formosa bonds laid the foundation for an issuance boom in the product. This came alongside a drying up of the Dim Sum market and caused many to ponder whether the Taiwanese renminbi market was about to eclipse its better established Hong Kong neighbour's. The jury is still out.

In November 2013, Taiwan's Financial Supervisory Committee (FSC) allowed Taiwanese and foreign banks to issue in renminbi using the Formosa bond market.

This comprises foreign currency issuance in Taiwan's domestic bond market, usually through listing on the GreTai exchange, and which is subject to domestic regulations and taxes. Mainland Chinese banks rushed

to bring deals after the deregulation, accounting in late 2014 for 65% of total Formosa bond issuance.

Further regulatory change in April last year lowered the funding cost for foreign issuers listing their bonds in Taiwan while the classification of Formosa bonds issued by offshore entities and cleared offshore spurred issuance.

Bringing deals in the Formosa bond market is subject to local regulatory approval and local tax is payable on the issuance and this, together with the relatively poor liquidity of the market, explains why renminbi-denominated Formosa bonds historically have yielded less than Dim Sum bonds, although increasingly there is yield convergence.

There was a surge in investment by Taiwanese insurers in renminbi-denominated Formosa bond issuance after the regulatory approval.

An employee pours boiling water into a pot at a restaurant built with ice cubes during the 28th Harbin International Ice and Snow Festival in Harbin
© REUTERS/Sheng Li

“Taiwan’s bond market is traditionally yield rather than forex-driven. There is a natural inclination among the onshore investors towards Taiwan dollars, but they also show interest in US dollars if they can swap back at a premium to Taiwan govies”

The regulatory change in April last year, with a consequent switch from low-yielding Taiwan government bonds, prompted a rise in local domestic government bond yields.

Taiwan life insurers have foreign investments capped at 45% of their portfolio, hence the reclassification prompted a mass switch into Formosa bonds.

And with long end yields around the 2% mark and most Taiwan insurers adopting a 4% hurdle rate, these companies are natural buyers of offshore fixed-income assets, and they are increasingly shopping around to achieve or exceed this hurdle.

The freeing up of the local life insurance investor base has resulted in increased demand for offshore paper in dollars as well as renminbi.

Still, this blossoming comes with a health warning for offshore banks hoping to grab wallet by selling down Formosa paper; if they are not licensed in Taiwan they face penalties from Taiwan’s FSC. Barclays’ Taipei branch was fined NT\$12m (US\$384,000) in December for selling offshore securities without a licence in Taiwan.

The booming renminbi-denominated Formosa bond market has been music to the ears of DCM bankers who had been staring down into what appeared to be the demise of the Hong Kong Dim Sum market.

Issuance in that market has slowed to a trickle this year as monetary easing by the mainland Chinese authorities reduced borrowing costs in the domestic markets and rendered Dim Sum issuance uncompetitive.

Opening demand

The vast pool of renminbi located onshore in Taiwan is the biggest outside mainland China and much of the funds sit with life insurance companies.

As well as the opening up of demand from life insurance companies, issuance was driven by a rosy arbitrage scenario for issuers, particularly in renminbi, where post-swap savings from renminbi into dollars were irresistibly advantageous.

Ironically this came about just as a spike in onshore renminbi deposit rates in Hong Kong suddenly made the Dim Sum market look profoundly unattractive.

Three-year rates spike from around 2% to 4% earlier in the year and issuers were simply unwilling to fork out for the higher coupons demanded.

“For a long time, the Dim Sum market was a one-way trade predicated upon the stability of the renminbi FX regime. With Hong Kong cast as the gateway to China, investors had the luxury of an attractive carry play,” said Andrew Stephen, head of Asian private placement and local currency at Deutsche Bank in Singapore.

“Now that we’re seeing more volatility in the currency, the investor mentality has shifted and this has increased volatility in the bond market.”

According to data from Thomson Reuters, issuance in Formosa bonds has risen from US\$1.27bn-equivalent in 2013 via seven deals, to US\$2.4bn-equivalent via 10 deals in 2014, to US\$2.3bn-equivalent via 12 deals so far this year.

“Dim Sum has had a hard time of it in Hong Kong, thanks to monetary policy easings on the mainland that suddenly made it look less competitive in yield terms versus the PRC onshore market,” said Jon Pratt, head of Asia-Pacific DCM at Barclays in Hong Kong.

“But it will come back, partly due the mechanical function of rising renminbi deposits in Hong Kong. But also because of yield and spread normalisation in the US dollar fixed income markets and the consequent search for high quality diversity.”

Far from demise

This comment was apposite coming as it did just after PRC computer manufacturer Lenovo priced the largest corporate Dim Sum bond to hit the market in more than a year (with Barclays on the trade), a Rmb4bn (US\$645m) five-year that garnered a chunky Rmb20bn book via 234 accounts. The Dim Sum market, on the evidence of this unrated trade, is far from its demise.

“We were just on the Lenovo deal, which was the Dim Sum market’s largest single tranche offering and which for an unrated deal just goes to show that the right name with the right structure and price can clear this market,” said Pratt.

He pointed out that the Formosa market, while having had an auspicious time of it, was hitting a bottleneck whereby the yield hurdle at the Taiwanese lifers was increasing, while issuers were loathe to pay the returns demanded.

“Formosa bonds have had a great run and are here to stay, but yield targets are more discerning now on both the buy and sell-side. Particularly notable has been a rising yield hurdle at the Taiwanese life companies, where the buying surge of the past few years has given way to something more ambitious. It’s a classic market process of maturing,” said Pratt.

One-dimensional

The one-dimensional nature of the Dim Sum market has long been a talking point of market participants: it has been regarded as little more than a call on the foreign exchange value of the renminbi and its ability to deliver tenor beyond five years non-existent due to the unwillingness of counterparties to commit on a long-dated swap. By contrast, the Taiwan dollar market is driven by the need of onshore institutional investors for carry.

“Taiwan’s bond market is traditionally yield rather than forex-driven. There is a natural inclination among the onshore investors towards Taiwan dollars, but they also show interest in US dollars if they can swap back at a premium to Taiwan govies,” said Stephen.

“The drop in US dollar yields through early parts of this year resulted in a US corporate issuance slowdown, but this is more of a blip, than a structural stymie. As US Treasury yields rebound so will issuance volumes.”

Interestingly, the Formosa market has been able to deliver at 20 and 30 years and callable bonds are allowed, making the arena a rather tantalising alternative to straight Dim Sum. Indeed, Barclays’ Pratt sees the Formosa market stepping into the breach for long-tenor dollars should the US dollar offshore market in Asia shut. ●



SHADOWLANDS

The extension of municipal bonds throughout China represents an effort to bring desperately needed transparency to opaque local government financing and avert a debt crisis.

BY GAVIN O'TOOLE

If the Chinese proverb “rich is the man with no debts” is to be believed, then local authorities throughout the country have been growing steadily poorer from decades of fundraising through opaque local government financing vehicles (LGFVs).

Concerns about spiralling debt among local and regional governments (LRGs) have mounted as the economy has slowed, sparking a revolution in transparency through regulatory changes aimed at encouraging a transition away from LGFVs and into municipal bonds.

LRG debt is viewed by many analysts as a serious threat to the economy and recent interest-rate cuts by the People’s Bank of China have failed to lower borrowing costs for many lower-rated issuers, compounding concerns about default.

For some time, experts have argued that the only long-term solution to local debt is the creation of an active municipal bond market, something that since 2012 the central bank has been exploring.

“Continuous borrowing by local governments to fund infrastructure and other spending has led to the build-up of a substantial debt pile. This is estimated to be around US\$2.5trn–\$3trn. This municipal bond programme was designed as an attempt to make provincial governments more responsible for their borrowing. Whether it has succeeded in doing that, however, is another matter,” said Danae Kyriakopoulou, senior economist at the Centre for Economics and Business Research.

Despite broad recognition that LRG debt in China is a problem, up-to-date figures about it are impossible to come by. The last Chinese national audit report in June 2013 put the combined debt of local governments at Rmb17.9trn (US\$2.86trn), up 67% from the last audit in 2011. A year ago, Reuters cited estimates that local governments might owe up to US\$4trn, 42% of China’s GDP, and an updated audit is expected this summer.

Need for transparency

Andre de Silva, head of global EM rates research at HSBC, said: “One of investors’ major concerns is that the structure of local government debt is so opaque. With the emergence of over 8,000 LGFVs, it has been difficult to grasp the magnitude and nature of the debt. Even the central government is finding it a challenge, as the National Audit Office discovered when it went through the books. Creating greater transparency is crucial.”

As provincial governments start to suffer from a slowdown in growth and a sluggish property market, China’s leaders have grown nervous. In April, the Shenzhen-based Kaisa Group became the first Chinese property developer to default on its overseas debt, put at US\$2.5bn.

Nahed Ennasr, chief strategist at Fathom Consulting, said: “The problem posed by municipal debt is a symptom of a slowing economy and overcapacity. Our view is that China is experiencing a hard landing. They have just cut their benchmark rate and we have seen the first international default on the debt market, Kaisa – and we will see much more coming.”

The LRG debt has grown despite restrictions banning local borrowing 20 years ago, largely because central

government under-funded ambitious development plans, forcing provinces to push ahead with costly infrastructure projects bankrolled by risky, unregulated borrowing off-balance sheets through LGFVs using shadow-banking products and short-term loans.

Crackdown

Regulators launched a crackdown last year and in a series of steps empowered the 32 provincial authorities and some city-level governments to issue muni bonds. Investors have responded enthusiastically, with the Standard & Poor’s China provincial bond index gaining almost 10% in the past 12 months.

In March this year, the government announced that it would allow LRGs to convert as much as Rmb1trn (US\$160bn) of existing high-yielding debt into municipal bonds in a bid to cut debt-servicing costs, potentially reducing interest payments by as much as Rmb50bn a year.

However, in April it was revealed that several LRGs have had to postpone bond auctions as banks – reluctant to be saddled with poor assets at low rates of return – balked at the low yields on offer. The response by China’s government was to do what it does best: flex its muscle. It has forced banks to swap muni bonds for debt, with the concession that they can count the new munis as guaranteed collateral with the central bank.

Kyriakopoulou of the CEBR said that elsewhere swaps of this kind would be akin to a default. “If you had seen that in a country like Greece, for example, it would immediately be considered a default but in the case of China it is not. What is happening is that there is a high level of debt and local governments are struggling to find the funds to repay it,” he said.

“Instead of letting them default, the central government is imposing a debt swap on the banks, whereby the banks unilaterally swap their short-term high-interest debt with a low-interest higher maturity debt. The People’s Bank of China has promised to then let the banks use these bonds as collateral for further lending. It is a form of easing policy.

“It’s worrying, but we should keep in mind that China is an economy in transition. These targeted measures of easing policy can be more effective than lowering interest rates and letting the market allocate credit to the most efficient uses given the nature of China’s economy,” he said.

Terry Gao, director of international public finance at Fitch, points out that although the yields on munis are low, the government has offered clear benefits for the banks.

“The yield is just a bit higher than the treasury bond, but the central government also set some rules that the banks can benefit from: for example, the risk weight factor for all these bonds issued under the swap programme is only 20% and this could benefit the banks’ capital adequacy. So although people know that the yield may not be high, the government has made interventions that can help buyers.”

Swapping appears to have broken the logjam and in mid-May, after a one-month delay, the heavily indebted Jiangsu Province was able to sell the first batch of muni bonds among LRGs this year, auctioning issues totalling Rmb52.2bn at a price not much higher than the yields China pays on its sovereign bonds.

Participants ride horses as they fight for a slaughtered goat during a Buzkashi event in Yuli county, Xinjiang Uighur Autonomous Region © REUTERS/China Daily

“Currently the Chinese economy is pretty much driven by fixed-asset investment. Demand might still be pretty high but having said that the central authority is trying to rebalance the economy from fixed-asset investment or infrastructure-driven to more consumption driven. So let’s see how that works – it is going to take some time”

Despite the hiccups, analysts broadly welcome the muni bond programme, pointing to a range of benefits for Chinese financial markets and the country’s fiscal health.

Changing model

Gao at Fitch sees it as part of a broader ambition to change the economic model, saying: “Currently the Chinese economy is pretty much driven by fixed-asset investment. Demand might still be pretty high but having said that the central authority is trying to rebalance the economy from fixed-asset investment or infrastructure-driven to more consumption driven. So let’s see how that works – it is going to take some time.”

He believes muni bonds will give China’s subnationals more flexibility to meet their funding needs and help them achieve a better debt maturity profile; will encourage them to shift away from off-budget shadow financing; and will also allow for more accurate pricing of risk.

The measures amount to a revolution in transparency in local government finance, many details of which remain hidden from public scrutiny. Guangdong, for example, qualified for its bond auction by becoming one of the first local governments to publicise its debt load (Rmb62bn at the end of 2013).

Yet there remain doubts about filling the gap left by LGFVs with a huge expansion of the municipal bond market. There are concerns in particular about rating arrangements in China, with some analysts referring to compliant domestic agencies and possible collaboration between them, issuers and the state-owned banks.

Fitch, Moody’s and Standard & Poor’s only rate offshore-issued Chinese bonds, and opinions about domestic risk vary considerably. In November 2014, for example, S&P warned that half of China’s provinces might warrant junk-level credit ratings.

In March 2015, Moody’s analysts reported that if they were to apply global methodology to upper-tier LRGs, their ratings would be “no more than two notches below that of the sovereign government”.

Moral hazard

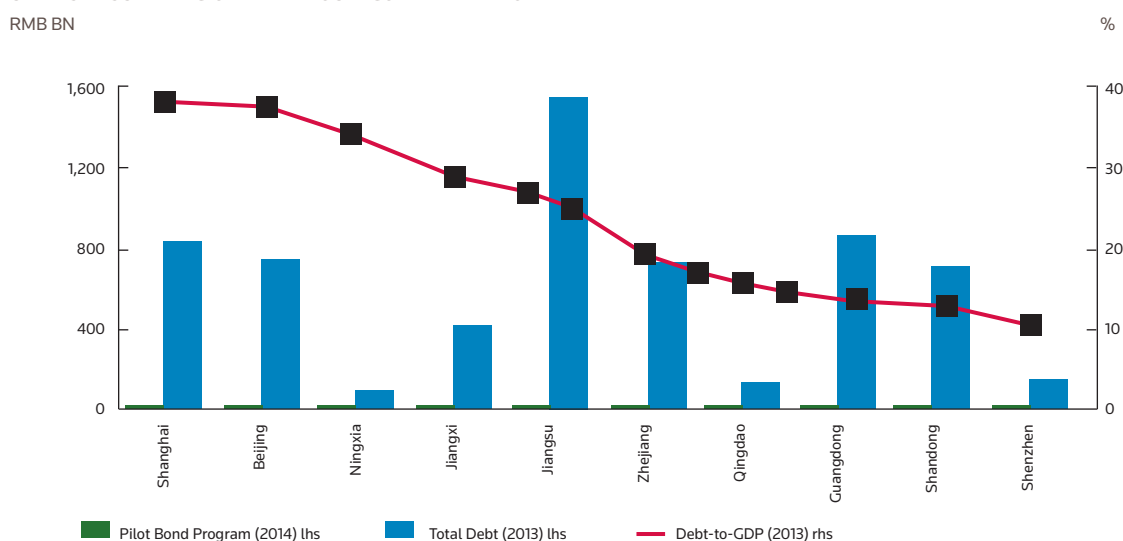
“China is trying to attract more international investors in the local market, the onshore market, but to do that they need international ratings agencies such as S&P, Fitch and Moody’s to rate their bonds – corporate bonds, for example – which is not happening at the moment. So LRG debt can be risky. It can be rated Triple A, but goodness knows what the real rating is,” said Ennasr at Fathom Consulting.

Above all, there is uncertainty about what might happen in the case of a default. Analysts say yields that have been lower for local issues than for central government bonds imply that investors believe a central government bailout is guaranteed.

In August 2014, S&P said the expectation of some investors that the central government would support the bonds derives from the country’s unitary political system and the strong controls that it exerts over LRG bond issuances – but pointed out that the central government has grown increasingly wary of moral hazard – which may mean that it will allow LRGs to default.

De Silva at HSBC said: “There have been no actual defaults yet on LGFV bonds and loans in China. However, defaults should occur so that investors can price in adequate default risk premium. Borrowers will then be differentiated and this can help deter unnecessary fundraising.” ●

CHINA’S NASCENT REGIONAL AND LOCAL GOVERNMENT BOND MARKET



Source: Disclosure documents of the pilot bond program issuances



SHOWING ITS BRILLIANCE

China's new AIIB multilateral bank is a symbol of a bold new foreign policy that places the country in a position to lead the next round of globalisation.

BY GAVIN O'TOOLE

A favourite phrase of the great Chinese patriarch Deng Xiaoping encapsulating his approach to foreign policy was: "Hide your brilliance, and bide your time."

The underlying idea was that the rapidly growing Asian dragon needed to proceed in diplomatic affairs in a way that did not frighten the rest of the world, whose investment, technology and markets it needed.

No better symbol exists of how this cautious approach has been superseded by the country's paramount leader Xi Jinping than the creation of the Asian Infrastructure Investment Bank, which was announced in 2013 and is now taking form on paper.

Jonathan Fenby, managing director of China research at emerging market research service Trusted Sources, said: "There has been a real sea change in foreign policy under Xi Jinping, who took power 2-1/2 years ago, which

can be summed up in the phrase 'We are going to show our brilliance, and our time has come', and the AIIB is part of that. What this reflects is geopolitics being backed by geo-economics."

Geopolitical ambitions

Borne out of frustration with a lack of reform at US-led multilateral financial institutions such as the World Bank, International Monetary Fund and Asian Development Bank, the AIIB now has 57 prospective founding members and is likely to have registered capital of at least US\$100bn, against which it can borrow a multiple from capital markets.

On paper, its aim is to fund infrastructure – with a key focus to finance China's ambitious vision of a "New Silk Road" – but Fenby believes the creation of the bank cannot be divorced from Beijing's broader geopolitical ambitions, using "strategic economic" tools backed by eye-watering reserves of US\$4trn rather than the "strategic military" approach of the past.

Visitors take a selfie in front of lantern decorations installed to prepare for Spring Festival celebrations in a temple fair at a park, in Beijing
© REUTERS

AIIB FOUNDED MEMBERS

27 COUNTRIES HAVE BECOME ASIAN INFRASTRUCTURE INVESTMENT BANK (AIIB) MEMBERS SO FAR, THE NEWEST BEING JORDAN



Source: Ministry of Finance; China; Reuters

In particular, the creation of the AIIB responds to the desire both to export excess capacity at a time of slowing growth in China itself and to internationalise the renminbi.

“China has invested heavily in infrastructure, so much that it now has a lot more buildings and structures than it can use – there are roads that lead nowhere and cities that no one is living in,” said Danae Kyriakopoulou, senior economist at the Centre for Economics and Business Research.

“This means that returns to further investment domestically are not promising, and so China is looking abroad for higher returns and ways to keep its infrastructure industries in employment. This is an important motivation for creating the AIIB.”

Meeting a need

Yet Asia’s financing needs for infrastructure are well beyond the capacity of existing institutions. The ADB Institute estimated in 2010 that infrastructure needs in the region in order to sustain growth would amount to US\$8trn up to 2020. The ADB, with registered capital of US\$165bn, still finances less than 2% of Asia’s needs.

Frederic Neumann, co-head of Asian economics research at HSBC, believes emerging Asia will need to invest more than US\$11trn in infrastructure from now until 2030, with the majority required outside of China.

He wrote in the Nikkei Asian Review: “The existing arrangements are not up to the scale of the challenge. Despite Asia’s success in driving growth, hundreds of millions of people still live near the poverty line. Demographic trends suggest the pressure on government budgets will only grow over time.”

Nonetheless, behind the hype and high expectations surrounding the creation of the AIIB, it is clearly too soon to assess its prospects.

Nahed Ennasr, chief strategist at Fathom Consulting, said: “It’s far too early and very difficult to judge if the AIIB will have any benefits for Asian countries. Our first conclusion is that China is trying to export its overcapacity and it is unclear if AIIB will have any sort of influence in the region.”

Currency ambitions

She agrees that its creation has to be seen alongside China’s broader ambitions for its currency, though it remains undecided which currency the AIIB will use – the US dollar or renminbi, or a mixture of both. Much will depend on what happens at the IMF, which in May began debating whether the renminbi should be incorporated into its Special Drawing Rights, a matter over which the US does not have a veto.

China’s currency ambitions help to explain why countries such as the UK, eager to become an offshore centre for renminbi settling, have rushed to join the AIIB. According to HSBC, the offshore renminbi market now represents 14% of non-G4 (that is, the G3 currencies plus sterling) international bond issuance.

While a key but not exclusive focus of the AIIB will be the New Silk Road initiative, much of the attention so far concerns the bank’s implications for established geopolitical norms.

Thinly veiled US hostility to the creation of the AIIB was in evidence earlier this year when Washington voiced public fears about the possibility of lax standards at the new lender and was unable to contain its criticism of the decision by the UK to join the Chinese-led multilateral, followed in short order by Germany, France and Italy.

US opposition to the AIIB has been dismissed as insecurity about its global influence, and it remains too soon to determine whether concerns about standards are justified.

Fenby of Trusted Sources believes that in raising the issue of standards publicly, Washington has almost certainly ensured that this will not be a problem.

“The Chinese want this to be a success, obviously, and they would avoid any lowering of standards that would lead to, let’s say, some of the Europeans leaving or expressing reservations. That would be embarrassing for China and they will want this institution to operate as transparently and to the highest standards as possible,” said Fenby.

The AIIB has also won significant support in other quarters, with the IMF, World Bank and influential development economists such as Joseph Stiglitz welcoming the announcement.

There is little doubt the new institution will have implications for the ADB, a frequent target of criticism for dragging its feet and imposing overly stringent requirements on projects. There may also be implications for the New Development Bank, the BRICS bank launched by China with Brazil, Russia, India and South Africa and due to start lending in 2016.

Kyriakopoulou of the CEBR said: “The Japan and US-led ADB quickly rushed to defend their territory by making plans to increase their own infrastructure spending and investment and loans to Asian countries – this suggests a tension with the AIIB even though it has not been explicitly expressed as such.

“But this ‘duplication’ is not necessarily a bad thing – there is plenty of room for both competitors. The Asian financial crisis has left a deep legacy of an infrastructure deficit in the region and heavy investment is needed to overcome this.”

Mutually beneficial

In principle, there is no reason why the AIIB cannot operate in a landscape in which multilaterals complement each other, as occurs within Latin America. However,

crucial governance questions have yet to be answered, points out Ennasr of Fathom Consulting.

“When you dig a little deeper, it seems that there has been a lot of talk for something that is not set up yet, because the operating framework of the AIIB has not yet been established,” she says. “Yes, 57 members have signed up and they have set a budget, but there is no governance framework and it is also unclear which currency they will be using, how are they going to meet international standards, and how they will allocate the voting.”

Ennasr believes one sticking point could be the conditionality placed on AIIB loans, given China’s record in regions such as Latin America where lending was often tied to the use of Chinese companies and workers.

Potentially, there is also likely to be tension between the developmental agenda embodied in the AIIB and China’s broader geopolitical ambition in the South China Sea. Russia’s response to the Silk Road strategy remains an unanswered question.

Fenby of Trusted Sources believes that, while China is unlikely to use the AIIB in an overtly political way as a blunt instrument with which to get its way, “I would be very surprised if the AIIB did anything that China did not approve of”.

Crucially, if Beijing is the largest shareholder in the AIIB – most estimates suggest it is likely to hold between 25% and 30% of the shares – then there will be attention paid to the potential impact of economic problems in China on the multilateral bank.

This intimate relationship with China’s economic fate means that, as a symbol of the country’s newly assertive role on the world stage, there is little doubt the stakes are too high for Beijing to allow the AIIB to be unsuccessful.

Fenby said: “China has to make it succeed. It can’t allow this to fail. If it is going to push for greater internationalisation, it becomes a geopolitical priority, because if the AIIB didn’t work or if its standards were too low or skewed, it would be quite a big setback for what is a much more cohesive, coherent foreign policy under Xi Jinping.” ●



China's President Xi Jinping (4th R) meets with the guests at the Asian Infrastructure Investment Bank launch ceremony at the Great Hall of the People in Beijing
© REUTERS/Takaki Yajima



BALANCING ACTS

Leveraged buyouts were a symbol of the boom ahead of the global financial crisis. Eight years on and leveraged loans are back, but this time regulators are keen to curb bankers' enthusiasm.

BY PHIL THORNTON

The power of leverage has been known since the days of Ancient Greece. The mathematician Archimedes said some 2,200 years ago: "Give me a place to stand and with a lever I will move the whole world."

During the financial boom years of the three decades in the run-up to 2007, corporate executives and bankers took those words to heart, using a significant amount of borrowed money to finance the cost of multi-billion dollar acquisitions and giving birth to the concept of the leveraged buyout.

But since the global financial crisis of 2008–09, regulators across the Western world, and particularly in the US, have become more wary of the ability of leverage to magnify risk as well as borrowers' firepower.

The fall in official US Federal Reserve interest rates to close to zero, combined with its quantitative easing programme, created vast swathes of cheap financing that has triggered a surge in leveraged lending to rival the pre-crash volumes.

Triggering penalties

In March 2013, the Fed and the Office of the Comptroller of the Currency separately published guidelines to govern the sorts of loans banks would be able to make to debt-laden companies, as they sought to prevent credit markets again overheating.

In particular, the moves flagged up leverage of more than six times Ebitda as something that could trigger penalties.

In the autumn of that year, the Fed used its annual stress-test scenarios for banks, including factors that would test a bank's response to changes in economic conditions that might affect the performance of leveraged and other high-risk loans.

Then in a "frequently asked questions" publication released in November 2014 it flagged up concerns over covenant-lite leveraged loans that had fewer restrictions on collateral, payment terms, and levels of income.

Deal brake

The actions appear to have worked to limit the growth in US leveraged loans, falling from US\$292.6bn in the first quarter of 2014 to US\$125.7bn, according to data from Thomson Reuters.

Russia's Margarita Mamun at 31st European Rhythmic Gymnastics Championships in Minsk, Belarus
© REUTERS/Vasily Fedosenko

US LBOs funded using those loans also eased from US\$21.1bn to US\$19.0bn over the same period.

Jeff Norton, US banking partner at global law firm Linklaters, said that regulation was certainly “top of mind” for all participants in new deals.

“People are slightly more mindful about the amount of leverage, the covenant approach and other things the regulators are concerned about, but there has yet to be a significant change in overall approach,” he said.

The scale of leverage has been reduced. According to Thomson Reuters data, at the end of last year, the largest corporate leveraged buyout deals in the final quarter of 2014 carried debt of 6.54 times earnings, on average. This was down from 6.96 times in the third quarter, which was the highest level of holdings since they averaged above seven times during most of 2007.

Other regulations are also acting as a brake on leveraged deals. Regulations such as the Volcker Rule, Dodd-Frank’s risk-retention rules, and Basel III capital requirements have dampened issuance in the leveraged finance market, with the prospects of compliance making arrangers and borrowers reluctant to bring new deals to market.

Spotty calendar

According to Standard & Poor’s Capital IQ Leveraged Commentary & Data, arrangers of transactions expect acquisition-driven loan volume to continue at the pace seen so far in 2015, with an emphasis on strategic deals.

“As for leveraged buyouts, the calendar may be spottier, in part because of high stock-market valuations,” said Andrew Watt, a primary credit analyst at the ratings agency.

While US leveraged loans may be declining as a source of financing, it has hardly brought deal-making to a halt. The deal momentum accelerated towards the end of the first quarter of 2015.

Highlight deals included loans raised for the financing of the acquisitions of retailer PetSmart (US\$4.3bn), Riverbed Technologies (£1.6bn) and packaging firm SIG Combibloc (US\$1.2bn).

But what each of these transactions had in common was that the banks providing the funding for these transactions adjusted the financing terms to get the deals through.

In the case of PetSmart, leverage ratios estimated as high as 7.25 prompted several banks to stay away from the deal. However, the deal went through in February 2015 with Citigroup, Barclays, Deutsche Bank, Nomura, Jefferies, RBC Capital Markets, and Macquarie arranging the loan.

Fed-friendly

Banks are likely to be concerned about antagonising the Fed over the issue, if for no other reason than that all US banks have complex relationships with the Fed and want to ensure those relationships remain friendly and avoid any potential point of tension.

“Therefore, there is a balancing act involved as to what you are doing with your leveraged loan desk and what you might be doing with other parts of your business that touch on the Fed,” said a senior loan banker.

But as US banks have withdrawn from some high-leveraged deals, other lenders such as private equity firms have been more than happy to fill the breach.

When Preferred Sands, a maker of sand used in hydraulic fracturing, came close to bankruptcy in the summer of 2014, US banks were uneasy about offering refinancing at high leverage.

KKR, the US private equity giant, agreed to refinance the company through equity and debt of more than US\$680m. Deals are being done.

“I can’t say that increased regulatory concern in the US has had a chilling effect, given the market is still very active and highly competitive,” said Norton.

He added that there had been some deals where there had been a reluctance to agree to certain terms for certain banks that have pulled back for a bit.

“There have been a few recent deals where there has been initial reluctance to agree to certain terms, however this usually is sorted through,” he said.

For example S&P LCD identified a weakening in a key leveraged loan covenant protection. The percentage of leveraged loans that waive excess cashflow recaptures – covenants that force borrowers to repay debts ahead of schedule – reached an all-time high of 42% in the first quarter of 2015.

Alternative lenders

James Douglas, global head of debt capital advisory at Deloitte, said he still saw “huge liquidity” in the global leveraged loan market.

“In particular, the non-bank alternative lender space is incredibly buoyant,” he said. “There is a significant volume of alternative lender money looking for leveraged loan opportunities.”

Leveraged loans are now increasingly popular in Europe as there has been a shift away from traditional bank lending towards institutional leveraged loan issuance.

Data from Deloitte showed that in Europe in the third quarter of 2014 there were 80 deals financed by alternative lenders compared with 18 in the fourth quarter of 2014.

One trend that Norton had observed was that there were more deals done in the US style or using US law in order to tap into the US markets and also to reflect preferred precedents for transactions.

“There is a lot of mixing of structures and precedents across markets,” he said.

Flavour of the day

Transactions being negotiated in financial centres such as Hong Kong, Paris and London will increasingly be based on the structure of the US market.

“It seems to be the flavour of the day right now to make sure your loan is sellable in Europe, Asia and in the US,” said the senior loan banker.

Meanwhile, there are signs that banks are becoming keener to compete for leveraged loans. JP Morgan is leading a refinancing for sales and marketing agency Acosta, which aims to cut the company’s borrowing cost.

The loan, which was originally syndicated in August 2014 before regulators tightened the reins on Wall Street lenders, has total leverage of 7.6 times and senior leverage of 5.2 times, bankers said.

On the same day in November 2014 that the Fed issued its frequently asked questions, its Shared National Credit review showed that leveraged loans accounted for almost three-quarters (74.7%) of criticised assets.

One in three leveraged loans were criticised by the Fed and the other federal banking agencies.

“The review also found serious deficiencies in underwriting standards and risk management of leveraged loans,” it said. “Overall, the SNC review showed gaps between industry practices and the expectations for safe-and-sound banking articulated in the 2013 guidance.”

This has raised concerns that the regulators may continue to tighten their control on leveraged loans. The senior loan banker said there was still not a “bright line test” – the phrase the Fed used in its November FAQ – that indicated a point that bankers could not cross. “If we started moving towards that, then that would certainly have an impact.”

Meanwhile, with M&A deals enjoying a boom, Norton said bankers and financiers would look at other forms of finance such as high-yield debt to get the deal done. To borrow from Archimedes’ principle, regulation in one part of the market will displace the liquidity elsewhere. ●



THE CENTRE HOLDS JUST FINE

Scandal-wracked Brazil has staged a dramatic comeback after an eight-month absence from the bond market, which had stoked pent-up demand for Latin America paper across the board and encouraged issuers in other countries in the region to step up.

BY DAVID ROTHNIE

Barely a month after Petrobras avoided a technical default by finally publishing its audited results, it stunned the market on June 2 with a more positive surprise – a US\$2.5bn Century bond that attracted more than US\$13bn in orders.

The deal marks a dramatic comeback for the scandal-wracked company and confirmed a resounding return by Brazilian issuers.

The country has been the primary driver behind the region's seven-year hot streak in the bond markets but had retreated from the international markets following the Petrobras scandal, wreaking havoc on Latin American bond issuance.

For the first time in several years, Latin America did not post record issuance in 2014, when supply dipped to

US\$196bn from US\$199bn in 2013. That continued during the first quarter of 2015 when overall supply fell to US\$39bn from US\$55bn a year earlier, according to Thomson Reuters data.

Scampering to the sidelines

After accounting for more than a third of the region's record supply for the last several years, Brazil's borrowers scampered to the sidelines during the second half of 2014.

The fallout from the corruption scandal was severe, closing access to credit markets for the country's biggest issuers and also forcing a number of its supply-chain companies into bankruptcy.

Coupled as it was with a slump in the price of oil and recession in Brazil, the country's usually frequent issuers pulled in their horns and mothballed capital expenditure programmes.

A man walks up a spiral staircase at the Museum of Contemporary Art in Chicago
© REUTERS/Jim Young

While market participants were stunned by the timing and reception of Petrobras' return to the international bond markets, there were already early signs of a recovery in deal volumes during the second quarter.

"There is a sense that the fog is lifting over Brazil and that supply may be returning," said Chris Gilfond, co-head of Latin America capital markets origination at Citigroup, speaking before Petrobras hit the market.

A flurry of recent supply supported that thesis. A fortnight after Petrobras published its accounts, cement company Votorantim Cimentos, which was unaffected by the Petrobras scandal, came to the euro market with a €500m offering. Rates volatility meant that markets were choppy.

Getting it done

"It got done, but it wasn't a blowout," said one source close to the deal. But given that it was the first international deal by a Brazilian company in eight months, "getting it done" was some achievement.

Then BRF, the Brazilian foods group, announced a brace of firsts – it made its debut in the euro market and also printed the first Green bond by a Brazilian issuer with a €500m no-grow seven year trade.

Meanwhile, Vale, the Brazilian mining company, secured a US\$3bn five-year revolving credit facility for a term of five years, after seeing its free cashflow eroded by the falling price of iron-ore. Then on May 22, Banca Itau raised US\$1bn.

"Slower economic growth has allowed banks to fund internally and have less need for dollars, so the return of financial issuers is a positive sign," said Gilfond.

Brazil's absence in the previous eight months had stoked pent-up demand for Latin America paper across the board and encouraged issuers in other countries in the region to step up.

Breadth of issuance

"While the gap from Brazil's absence is large and it is felt, 2015 has been a fantastic year so far for other issuers," said Katia Bouazza, head of Latin America capital financing at HSBC in New York. "The breadth of issuance has been diverse and vast."

With Russia off limits and Central and Eastern Europe out of favour, demand for well-known credits from the region has remained robust and borrowers have shown a preference for the euro markets, where yields have looked increasingly attractive on the back of the ECB's quantitative easing initiative.

Notable non-Brazilian issuance has come from sovereigns such as the Republic of Chile, which raised €1.39bn with record-breaking yields and coupons, while Colombia Telecomunicaciones, which is owned 70% by Spain's Telefonica and 30% by the Republic of Colombia, came to the market with a rare hybrid deal – and the first high-yield deal from a Colombian issuer.

Mexican moves

During Brazil's absence, Mexico's sovereign and quasi-sovereign issuers stole the limelight. In total, Mexican issuers accounted for 50% of total issuance during the first quarter of 2015, compared with 25% a year earlier as investors snapped up new issuance for its scarcity value.

In April, Mexico's state-controlled oil firm Pemex wrapped up its funding needs for the year with a €2.25bn bond sale.

It was followed by the United States of Mexico, which came to the market with the first ever euro-denominated Century bond from an emerging markets issuer.

That marked its second trip to the euro market after a two-tranche offering in February, when it printed a €1.25bn March 2024 bond offering at a yield of 1.687% and a €1.25bn March 2045 note issue at a yield of 3.093%.

Rush to euros

The rush to euros is a relatively recent phenomenon and is being driven by diversification on the part of borrowers and a thirst for yield from the region's investors. Europe-based investors have also accounted for about 35% of order books of dollar deals coming from the region, according to one banker.

The drive by Latin American companies to issue in euros dates back to the taper tantrum of 2013, when volatility in the US dollar market prompted the region's frequent issuers to seek alternative markets.

Euro issuance by Latin American companies peaked in 2014, and has since fallen back as swap rates have turned less favourable, but the diversification trend is here to stay, especially by sovereigns, who have no swap needs.

Bouazza said: "Issuers realised the benefit of diversifying the investor base and that promoted a migration to the euro market, which we expect to continue. Other than the dollar market, the euro market can deliver size, maturities and long tenors."

Supply is also coming from markets that have traditionally been less active. During the first quarter, 20% of all bond supply came from markets defined as "other" – Paraguay and Ecuador being notable examples, while in April Panamanian lender Banco Latinoamericano de Comercio Exterior printed a US\$350m bond, the bank's second 144A/Reg S transaction after its debut in 2012.

"Investors are looking outside the mainstream markets for supply and off-the-run issuers have enjoyed a warm reception" said Gilfond.

Supply could pick up in the second half 2015 as the region's oil producers consider a return to the fray.

Ecuador, which relies on oil for more than 50% of its exports, came to the market in March as it looked to plug a widening financing gap caused by the recent dip in crude prices. The sovereign made a landmark return to the international debt markets in June 2014, when it raised US\$2bn through a new 10-year bond sale – its first since the 2008 default. The oil price rout has not ransacked the entire region.

"It's impossible to take a 'one-size fits all approach' when analysing the impact of the lower oil price across Latin America," said Bouazza. "For some in the region, oil at US\$50–\$60 a barrel is not as big a problem as it is for high-yield names in the US, for example."

Fresh momentum

The pace of tightening in the US will also have an impact on emerging markets, although many big Latin American borrowers began anticipating a rate rise in 2014 and pre-funded, another factor that powered record issuance last year.

It's been a different picture so far in 2015, when despite the calendar's colourful diversity, supply has remained tight and books have been dominated by buy-and-hold investors, creating a liquidity drought in the secondary market. Bankers will hope Petrobras' bold re-entry will provide fresh momentum. ●



FULL STEAM AHEAD

Forget the political issues taxing Europe, ample liquidity and competition between lenders are creating a boom time for companies looking to finance their acquisition plans.

BY PHIL THORNTON

With Greece close to collapse, the eurozone still emerging from stagnation and geopolitical tensions gripping Russia and Ukraine, one could be forgiven for believing the engines of the European economy were failing one by one.

But look at the number and value of merger and acquisition deals being struck in Europe, and it is clear the appetite for major takeover deals by corporate executives and bankers shows no signs of abating.

Deals worth more than US\$865bn were agreed in the 12 months to March 2015, a surge of 39% on the value of transactions done in the previous 12 months and the highest for at least four years, according to Thomson Reuters data. Real estate, healthcare, industrials and materials made up half the deals.

The deals are also getting bigger: 14,228 individual M&A were agreed in the 12 months to March 2015 for an average of US\$60.8m per deal. There were more deals done in the

12 months to March 2011 but for a lower value – 16,472 takeovers for a total of US\$722.9m, or US\$43.9bn each.

Financing the deals has not been a problem – indeed, analysts say the glut of liquidity in terms of cash, equity values and debt financing has been a driving factor behind deals.

“There is a lot of money around for M&A, either on companies’ balance sheets or through the bank markets, which are awash with cash,” said James Douglas, global head of debt capital advisory, Deloitte.

Mustard-keen

“All the banks are mustard-keen to lend in M&A situations because M&A financing is more lucrative than refinancing. The challenge is that there simply isn’t enough M&A activity to match the cash on companies’ balance sheets or the cash available in the marketplace,” he said.

The one area where there has been a tailing-off in activity this year has been the mid-market private equity sector, according to David Miles, London head of debt finance at lawyers DLA Piper.

A Puffing Billy steam train hauled by locomotive 14A crosses the Monbulk Creek trestle after leaving Belgrave station near Melbourne
© REUTERS/Jason Reed

“Companies were worried that if they did a big deal then their own share prices would be punished because of that. Now, you are seeing the acquiree’s and the acquirer’s share price being rewarded by doing deals”

“There have been fewer vendors coming to market, although there is no good reason for that,” he said. “There is lots of liquidity in both debt and equity, lots of willing purchasers and lots of competition therefore for high quality assets.”

A series of elections across Europe, including in the UK and Spain, and mounting tensions over Greece and Ukraine may have put the brakes on activity, Miles said.

As well as ample liquidity, CFOs have benefited from increased competition between the traditional banks and debt providers and alternative lenders, which has led to lower pricing, reduced fees and higher leverage.

Alexander Griffith, debt finance partner at DLA Piper, said there were “plenty” of lenders in the market, while new ones were coming to the market. “This is driving pricing down for the providers of debt and drives leverage up, helping to increase asset prices. So for vendors it is an ideal market.”

Another factor driving deals is a switch of strategy among both company directors and their financial advisers in the face of increasingly activist shareholders, according to Nick Lawson, head of event-driven strategies at Deutsche Bank.

Two or three years ago bankers advised CEOs to cut their cost base. “Now these companies have shored up a huge amount of cash and are slightly exhausted in terms of what to do. I have not seen any real capital expenditure coming through,” said Lawson.

Instead, companies are pursuing M&A deals to ensure shareholders “don’t actually question them too much”, Lawson said. “It is not that people are trying to do deals because of synergistic benefits but because of paranoia.

“The vast majority of deals being done at the moment are probably being done as a reaction to shareholder activism, so they are seen to be doing something.”

Oiling wheels

Expected to be the biggest energy-related acquisition of 2015 is the US\$72bn agreed takeover of BG Group by Royal Dutch Shell, in what was the biggest oil merger of the past decade. The deal, which will not close until 2016, was funded by cash and shares.

Chief financial officer Simon Henry said that if approved it would push Shell’s gearing up to 20% but that the company would “prioritise debt repayment initially” following completion of the combination.

Having paid down debt, the financial strategy was focused on building up cashflow again using cost-savings from the merger to fund a competitive dividend policy and US\$25bn buybacks from 2017 to 2020.

“This is a new shape for Shell, and I think we are laying a platform for the potential of a stronger cashflow profile for shareholders here, a new underpinning for our dividends, and share buybacks,” said Henry.

Lawson at Deutsche Bank said this was a perfect example of the new trend in M&A being driven by a desire to respond to shareholder pressure.

Iain Macmillan, head of M&A at Deloitte, said the drop in the oil price would fuel M&A in the energy sector, adding: “Businesses under threat from lower oil prices need to find synergies and that will drive consolidation.”

As well as big intra-Europe deals, the Continent has emerged as a target destination for overseas investors. The value of inbound deals in the first three months of 2015 surged from the previous quarter, up by 36% from US\$77.0bn to US\$105.0bn.

According to Deloitte, nearly one in four dollars spent on deals in Europe in 2014 came either from the US or Asia. That trend has continued into 2015. Thomson Reuters data showed that, taken together, China and Hong Kong accounted for US\$35.2bn out of the US\$180.4bn of takeovers, overtaking the US\$32.5bn by US companies.

The largest European deal during the first three months of 2015 was the US\$15.4bn purchase of O2, the UK mobile telephone company, by Hutchison Whampoa, the Hong Kong investment company.

China National Chemical Corporation reached an agreement with the controlling shareholders of Pirelli to buy the Italian tyre maker in a deal valued at US\$6.8bn. Qatar Investment Authority, the oil-rich emirate’s sovereign wealth fund, paid US\$1.93bn as part of a US\$4bn joint takeover of Canary Wharf with Canadian investor Brookfield Properties.

Lawson believes there is no reason for the deals to dry up.

“It is sustainable because there is so much cash,” he said. “There is a pent-up need for consolidation in a number of sectors at the moment.”

Miles at DLA Piper agreed, saying any business with a solid cashflow income stream but few assets would be attractive to traditional mid-market European private equity.

Competition and collaboration

Another factor behind companies’ willingness to pursue an M&A strategy as either buyer or target is that it tends to boost their market capitalisation.

“Companies were worried that if they did a big deal then their own share prices would be punished because of that. Now, you are seeing the acquiree’s and the acquirer’s share price being rewarded by doing deals,” Lawson at Deutsche said.

“It is no longer the case that putting your head above the parapet [means] you get 10% of your share price wiped. So that raises confidence in boardrooms.”

Most analysts agree the outlook for European M&A is for continued growth driven by the robust financial position of European companies and the attractiveness of Continental assets to overseas acquirers.

Griffith at DLA Piper said the glut of liquidity would unpin deal activity over the course of this year. One new trend was towards banks and debt funds working together to deploy capital in a combined structure.

“Not only is there a lot of competition but a lot of collaboration going on. We are seeing an increasing prevalence of first-loss, second-loss structures, which is another strength to the market giving greater product optionality,” he said.

Sriram Prakash, head of M&A and new growth insight at Deloitte, said the firm’s recent survey of 1,400 European CFOs was very optimistic.

“Everyone is expecting increased revenues and profitability, a wave of M&A activity, and restructuring to continue,” he said.

Companies will cope with the eventual rise in US rates, especially while the European Central Bank is pumping US\$1trn of liquidity into the market.

“Even if interest rates rise a couple of per cent that’s not going to have an impact if you have to pay 200bp more for debt,” said Douglas. “It is dangerous to say the outlook is benign when you don’t know what’s round the corner, but it is hard to see any factors we are not aware of having a big impact on M&A volumes.”

Short of an outbreak of renewed geopolitical tensions in Europe, Europe’s M&A train looks set to carry on running at full steam. ●



MODEL IN SEARCH OF CATWALK

Private placements are increasingly seen as a solution to Europe's SME financing conundrum, but authorities must first find a way to entice investors to these markets.

BY SOLOMON TEAGUE

Europe's patchwork of private placement markets is buoyant. Yet it remains a collection of small, national markets, with at least as many differences between them as similarities.

From the European private placement markets in France and the UK, *Schuldscheine* (SSD) in Germany, direct lending and even, arguably, MTN bond issuance, there is no clear definition of what is meant by the term private placement.

Italy is the latest to join the fray, adapting its legislation to encourage the emergence of a bond market for smaller Italian corporates, a move that has generated interest from non-bank lenders such as insurers. And all of these compete with the US market, sometimes referred to as the global private placement market because it welcomes issuers and investors from far beyond its own shores.

Many bigger issuers with access to the US market will instinctively look to go back to that market, but with more familiarity, one of Europe's markets may provide an attractive alternative.

Each market has its own nuances. *Schuldscheine*, for example, predominantly attract financial institutions as investors, though institutional investors are increasingly active, partly because German SMEs have little trouble

getting loans from their banks. It is therefore less relevant to the narrative of private placements replacing the declining bank market.

Alain Gallois, global head of DCM at Natixis, differentiates the legal definition from the practical one. "For the bulk of the market, private placements are non-liquid, small-sized, confidential transactions placed with a small number of investors," he said.

Crucial step

A number of national governments have concluded that growing their own private placement markets will be crucial in ensuring their SMEs have access to capital in coming decades. They see it as a way to encourage investors such as debt funds, pension funds or even crowd funders to invest in SMEs.

This will require incentives being created, particularly tax incentives, to entice such investors into the market. If they can get these incentives right, private placements can continue to grow and play an important role in financing SMEs in the future.

"Private placements do play an important role in the financing of European SMEs already and will certainly do so even more," said Stefan Rinauer, head of MTN private placements at Societe Generale.

Spanish model, Angela Cristina, stands on footbridge of the Metropol Parasol
© REUTERS/Marcelo del Pozo

“Bank lending will continue to be more restrictive and SME’s funding needs very often do not reach the necessary critical mass for Eurobond issuance.”

However, there is likely to be a limit to how far private placements can go in solving the SME financing squeeze.

“When we talk about SMEs we need to be more specific,” said Sebastien Palle, deputy head of public affairs at Societe Generale.

“For the larger medium-sized companies, and the high growth or very innovative institutions, or those operating across borders, market financing such as European private placement market will work. But smaller SMEs are always likely to rely on the bank market. Right now, the price of credit is very low, and small SMEs are better off turning to their banks for loans.”

In the short term, the priority is for authorities to develop their national markets. That requires reform of withholding tax, which has created a very uneven playing field not only within Europe, but particularly between Europe and the US.

Tax reform

The UK’s Treasury has indicated that it wants to reform its tax rules but remains concerned about the potential this could create for tax avoidance. Some have their doubts it can achieve this delicate balancing act.

David Shearer, a partner at Norton Rose Fulbright, said: “The private placement withholding tax exemption still requires the noteholder to be a financial institution and in most instances that will be a bank, so actually this reform has not opened this market up to new investors.”

According to one source: “Authorities need to either take a leap of faith and make the markets easier to use, or decide the issue of tax avoidance is more important and tell borrowers to make the most of the sources of capital that are already available.”

Tearing down the barriers

But many are already looking beyond the immediate concerns at longer-term goals.

“The next goal for Europe is to try and better unify the private placement markets, which will hopefully make them more efficient, transparent and flexible in terms of the size of deals that can be done,” said Angus Whelchel, co-head of private capital markets at Barclays. “By standardising the documentation and the marketing process it can hopefully entice new investors.”

“From a borrower’s perspective, the heterogeneity does not look like a big issue at first sight,” said Rinauer. “So far modest volumes have easily been absorbed by mostly domestic investors – except for the already significantly internationalised SSD market.” It allows issuers to pick from the different formats the one most suitable for its needs, he said.

This arrangement has the advantage of encouraging innovation, as different markets try different approaches, leaving issuers and investors to decide what works and what doesn’t.

“The US private placement market has been very innovative over the past few years,” said Whelchel. It allows delayed drawdowns, where issuers can lock in rates today but not actually draw funds until later; funding in other currencies such as euros and sterling; and the ability to structure offerings with amortising structures. Issuers have been keen to take advantage of such features.

“It’s these kinds of innovations that make the market so competitive,” said Whelchel.

However, having a number of smaller markets is less convenient for investors, said Rinauer. “An increasing number of European real money investors have decided to set up dedicated funds or portfolios for unrated credit in the hunt for a few extra basis points,” he said. To this end they are looking to expand their research coverage of private placement deals.

“The co-existence of many different legal formats across various jurisdictions adds further complexity to their already time-consuming credit analysis process and this still prevents a high number of investors from taking a closer look at unrated private placements,” he said.

Fragmented range

“What we have now is like the Eurobond market before the single currency, with the market fragmented into differing national currencies, so francs, Deutsche marks, lire, etc,” said Phil Smith, partner at Allen & Overy.

“Issuers borrowed in a range of currencies from national pools of liquidity. Now we have a single currency so it should be simpler to move to a more liquid European PP market.”

In January the ICMA released a guide for the creation of a pan-European private placement market outlining a voluntary code of best practice, how the process works and what information should be shared, for example. It looks very like best practice for a public bond issue, without the emphasis on exchanges.

This seems to be a stepping stone towards that goal. “I expect to see the emergence of a single European market but that allows for national variance,” said Smith.

“For example, if you have a French investor and a French borrower the deal would most likely be done with French documentation, which all sides will be comfortable with. But if the deal is cross-border, I’d expect it would use international standard documentation, which would probably be under English law, and again most institutions are comfortable with this.”

Some way to go

However, private placements have some way to go before they reach this point. Besides tax incentives, more needs to be done to demystify the sector for investors.

“Much more due diligence can be needed for a private deal,” said Smith. “This means investors need to be properly resourced to do it. Whether they do that depends on how many such deals they expect to do, which in turn depends to some extent on the yield environment. If rates look set to stay low there is a greater incentive to invest resources into this.”

Investors would also find it easier to make the jump into private placements if there was some form of independent information available. For public deals there are ratings. In the US private placement market most issuers are unrated, so there is no reason Europe cannot develop along similar lines.

To meet this demand for independent information, S&P has a kind of quasi rating system for SMEs called Mid Market Evaluation, offering an independent opinion – but not a formal rating – of medium-sized companies. Although take-up has been limited, that is principally indicative of the relatively modest levels of interest in European PP at this stage. As more investors look at the asset class, interest in S&P’s opinion about SMEs is likely to grow.

Smith said: “The amount of information available varies between countries. In France, you have a centrally held credit book covering the credit histories of companies, whereas in the UK there is nothing centrally held and banks have most of the information. This is an important issue because if you want to create a snowball effect in this market, access to information is key. That is what will help generate interest among investors.”

Such issues take time to iron out. “The European PP market will take time to provide a substantive model for issuance,” said Whelchel. “There does seem to be momentum in the right direction though. At this stage participants need to see how the newly drafted documentation pans out with both issuers and investors in the context of other alternatives that currently exist.” ●



REPETITIVE CRANE INJURY

Thanks to a need for yield, investors are chasing project bonds. After some initial stumbles, such bonds are becoming a global phenomenon.

BY ADRIAN MURDOCH

They might not have got off to the best start, but project bonds are back on the agenda. In Europe the pilot phase of the EU's 2020 Project Bond Initiative, implemented by the European Investment Bank, started in 2012 to great fanfare.

"The Project Bond Initiative provides an opportunity for reopening capital markets as a source of financing for crucial transport, energy and communications infrastructure essential for ensuring growth and competitiveness in Europe," said Werner Hoyer, president of the EIB.

But it almost fell at the first hurdle, thanks to the Castor Project, a large offshore submarine gas storage facility in Spain. In July 2013, it was the first to issue project bonds; a €1.4bn (US\$1.53bn) offering with EIB project bond credit enhancement. One of the country's biggest investments in its gas system, the project was supposed to store 30% of Spain's daily gas consumption.

As an idea it was clever. The plan was to re-adapt an oil field that was spent as a gas storage facility. The problem is that it did not work. Construction work had seismic effects that resulted in more than 200 earthquakes. Activity was halted immediately, and the only action in the last few years has been lawyers playing the blame game.

The problem has not affected the European issuance of project bonds as much as expected. As one banker says, "there has only been a knock-on effect for offshore gas storage financing", still it took until May this year for another project bond to emerge in Spain – the €184.5m 27-year 3.169% senior secured issue for the Meridiam-led A66 Benavente–Zamora motorway.

Slow progress

A greater impact on the issue of project bonds in Europe was the debt crisis.

"In all European countries, we have seen a constant decline in [infrastructure] investment, both in the public

Heavy fog rolls by early in the morning near the Dubai Marina
© REUTERS/Steve Crisp

and private sector. We must reverse that trend,” said Italian Finance Minister Pier Carlo Padoa-Schioppa last year.

Progress has been slow. The first Italian project bond since the debt crisis only put its head above the parapet in April last year – the €700m project bond refinancing of the Passante di Mestre toll road near Venice. It has been delayed several times, but is expected to close this autumn.

Although motorways financings are not the only type of project bond that are being looked at (the UK’s £305.4m Greater Gabbard offshore transmission link 4.137% 19-year bond deal through HSBC and Santander springs to mind), it is in road financing that the most consistently successful projects have been seen in Europe. That project bonds could cope with complex and longer tenor structures was proved by the €620m L2 Marseilles ring road scheme in 2013.

That deal was done without EIB assistance, but the two best-known deals since, have. The way was led in March 2014 by the €577.9m 31.5-year 4.49% project bond financing the A11 motorway, a fast road connection out of the port of Bruges-Zeebrugge in Flanders, Belgium.

“The A11 is the first motorway scheme to benefit from the EC-EIB Project Bond Initiative that helps institutional investors back long-term infrastructure investment,” said EIB vice-president Pim van Ballekom.

It was followed towards the end of last year with the €429m 2043 2.957% Bundesautobahn A7 project, a 65km stretch of the motorway north of Hamburg in Germany via Credit Agricole and Societe Generale. And there are several others in the pipeline.

What is encouraging issuance is that there is global investor demand for anything that even in the broadest sense can be called a project bond. Jason Russell, deputy global head of DCM syndicate SG, describes issues as “chased furiously by just about every source of liquidity”.

It is not just the longer tenor on these deals that attracts pension funds and insurance companies, but an explicit (or even implicit) government backing that makes them so attractive. Added to this, the hunt for yield is such that investors are prepared to look at them in a way that they did not before and consider the whole duration of the bond.

“The hunt for yield and scarcity of assets means that more investors are prepared to take the front-end risk – not just banks,” Russell said.

Issuance groove

While Europe has settled into a comfortable issuance groove, in other parts of the world there are specialist areas that have been attracting financing in the aftermath of legal changes. Take Turkey for example.

Parliament introduced a new public-private partnership law specifically aimed at healthcare projects in 2013 that was designed to attract more foreign investment. It has been a huge success and, for the past few years, the most interesting project money has been flowing into the sector.

Hospitals so far have been built on the traditional bank-funded PPP model – the €540m Adana Integrated Healthcare Campus Project in southern Turkey signed in mid-December got the ball rolling – but the first project bond is now being planned. This will be for the Meridiam-led €350m hospital in Elazig, in eastern Turkey via HSBC.

The appetite for project bond paper is such that investors are flooding into areas where in previous times they might have been more cautious. Latin America has seen particular innovation.

As one banker says: “People are hungry for assets if the framework is in any way appropriate.”

What is noteworthy, for example, about the financing for the metro in Peruvian capital Lima is not just that a project that had been discussed since the 1970s got away. A construction and planning soap opera in itself,

financing was concluded in February this year with a US\$204m equivalent 24.8-year bond. What speaks to the demand of the AA+ rated paper is that it printed at 4.75% – the lowest project rate ever for the country.

Demand can also be seen in Peru in the US\$274m project bond financing for a fibre-optic network concession in Peru for Mexican media group TV Azteca. At the beginning of April the 2031s, which have a 9.5-year average life, were priced to yield 5.875%.

By no stretch of the imagination was it an easy bond to sell. The project has complex features on top of never having been done before; there is no full government guarantee; and there were not insignificant country risks that caused concerns for foreign investors, especially ahead of next year’s elections. Still, the fact that the paper printed is significant in and of itself, notwithstanding the punchy coupon.

It remains a curiosity that the region of the world with the biggest need for funding and the biggest opportunity remains Africa, where there is a huge focus on development.

Although Chinese funding has ramped up significantly in recent years and now accounts for an estimated 20% of funding, the Brookings Institute estimates that there is still a US\$93bn gap in the continent’s infrastructure needs and there are few signs of project bonds.

Aside from power generation, the key area is anything at all to do with natural resources, but bankers say that financing remains disjointed. Many deals remain directly sponsored by the government and banks remain cautious about other financing.

“There are just too many significant questions about jurisdictional issues,” said one regional banker sadly.

Elephant in the room

As big a regional elephant in the room is Asia. Again, despite the clear need for infrastructure funding, to-date project bonds have remained off the table. This is partly due to a lack of familiarity with the product as well as questions about legal frameworks for the complex structures. Still, one of the more interesting project bonds, in the broadest sense of the word, at the moment is not only Asian, but comes with an Islamic structure.

At the end of April, Khazanah Nasional, Malaysia’s sovereign wealth fund, set up a M\$1bn (US\$282m) sukuk ihsan programme, which has been rated AAA by a domestic agency, to finance longer term social projects. The first issue under the programme came only a month later – a M\$100m–\$150m privately placed tranche to fund school construction. It was priced at a comfortable 50bp over equivalent govies to yield around 4.3%. Future tranches will fund projects such as hospital construction.

It is worth considering whether the much-trailed rise in US interest rates later this year might impact project bond pricing. The answer is less clear-cut and immediate than might be imagined.

SG’s Russell summed up the universal view. “It is hard to generalise. But it will take longer for pricing to react to rates movement. When interest rates do go up in the US, it is not necessarily the case that there will be an immediate follow-through to credit spreads and pricing for these asset classes.”

He explained that the long duration of infrastructure projects – 40 years is not uncommon – meant that both sides take a longer perspective on debt.

This is positive news for both issuers and investors. The former have a continued impetus to issue. Since they can be fairly sure that there will not be a spike in the spreads they will have to pay which could make bond issues too expensive, there is no reason for them not to issue and to consider both Africa and South-East Asia more seriously.

And with any rise in interest rates unlikely to be extreme, investors can continue to take advantage of the pick-up that project bonds offer over other paper and lock in long-term rates. ●



CHANGING THE RULES

The US Federal Housing Finance Agency wants Fannie Mae and Freddie Mac to use capital markets to reduce their dependence on the taxpayer. Freddie's credit risk transfer programme might just do the trick.

BY JOEL CLARK

When Donald Layton joined Freddie Mac as chief executive in 2012, the team working on credit risk transfer was what he now describes affectionately as the “skunkworks” – a small group of people developing a new idea that no one took very seriously at the time because it was such a departure from the company's existing business model.

But three years later, Freddie Mac's Structured Agency Credit Risk (STACR) debt notes are fast becoming an accepted and popular financial instrument in their own right, allowing the company to tackle the massive build-up of credit risk that proved to be its undoing during the financial crisis.

“STACR has been a strategic game-changer for Freddie Mac and the whole of the US financial system. Having an economically viable mechanism to transfer credit risk to the private capital markets at a reasonable price is proving to be a win-win for everyone,” said Layton.

Established by the US Congress in 1970, Freddie Mac provides vital support to the US housing market by buying up mortgages from lenders, thereby increasing their capacity to lend. But while it had historically been able to transfer its substantial liquidity risk and interest-rate risk to investors by issuing mortgage-backed securities, it was left with the credit risk.

Since being placed into conservatorship in September 2008, both Freddie Mac and Fannie Mae have been under pressure from policymakers at the Federal Housing

AquaMermaid founder Marielle Chartier Henault swims in a pool with a group of divers in Montreal
© REUTERS/
Christinne Muschi

Finance Agency (FHFA) and the US Department of the Treasury to reduce taxpayer liability for both government-sponsored enterprises (GSEs).

“Freddie and Fannie were always restricted by their government charters to being mortgage monolines, which was positive in that they could channel very focused support to the housing market, but it also created possibly the largest source of concentration risk in the US financial system, with trillions of dollars of credit risk sitting on the books,” said Layton.

For the family

The concept of transferring credit risk first came to fruition in 2009 with the launch of the K-Deal transactions for Freddie Mac’s multi-family business. Multi-family mortgage purchases, which are typically backed by apartments rather than houses, carry less risk than single-family mortgages, but the K-Deal programme has nonetheless been a success story for Freddie over the past six years.

Roughly 90% of multi-family mortgage purchases are now securitised through K-Deal transactions, with more than US\$100bn issued through 80 deals since 2009. Conceptually, the K-Deal programme created a template for the development of a credit risk transfer product for the larger single-family business, but in reality the two markets are structured very differently.

“K-Deals work very well for apartment house lending, but policymakers were much more focused on the single-family business because it’s a larger market and was the source of the problems during the crisis. Given the greater complexity of the single-family business, it required a research and development effort in its own right, which led to the launch of STACR in 2013,” said Layton.

The STACR notes are in effect bonds issued by Freddie Mac, with the principal determined by the performance of a diversified reference pool of mortgages. The firm has used its own cost of capital models to structure the notes in a way that balances the need to efficiently transfer a significant

portion of credit risk with the necessity of creating an economically attractive product for real-money investors.

Since its first issue in July 2013, Freddie Mac has completed 13 STACR transactions, with a total value of nearly US\$10bn. Among its four issues so far in 2015 was a record US\$1.01bn transaction in April, which had been upsized from US\$720m due to market demand. The deal was significant in that it was the first time investors bore the risk of losses based on actual severity, as it did not include a pre-determined severity formula as in previous issues.

“Investors are getting more comfortable with the product, so they will take more risk in some cases. Moving STACR from fixed severity to loss based on actual severity means we can transfer more credit risk to investors and reduce accounting volatility on our balance sheet, which is positive for both the company and the taxpayer,” said Layton.

Seven years on

Nearly seven years on from it being placed into conservatorship at the height of the crisis, Freddie Mac has clearly positioned itself on a more stable footing, but both Fannie and Freddie remain under pressure from the FHFA as their conservator.

Among three strategic goals set for the GSEs last year, the FHFA demanded that they reduce taxpayer liability by increasing the role of private capital in the mortgage market. Deepening credit risk transfers for both the single-family and multi-family business is central to achieving that objective.

“Given the two-year development phase before the first STACR issue, we’re probably now in year four of what will be a decade-long evolution of an asset class that also includes our ACIS reinsurance transactions and other new structures we plan to introduce in the near future. These offerings represent a material de-concentration of risk in the financial system, so it’s imperative that we get them right, and we are continuing to tweak our products to make them more effective,” said Layton. ●



The headquarters of mortgage lender Freddie Mac is seen in Mclean, Virginia, near Washington
© REUTERS/Jason Reed



BEHEMOTH TRYING TO DANCE

The European Stability Mechanism/European Financial Stability Facility is a curious institution. Formed in the early months of the eurozone debt crisis to provide financing to unstable member states, it can often, as well as big, be almost uninspiringly boring.

BY ELLIOT WILSON

Most of the time, it brings a new meaning to words like “rigidity” and “procedure”, publishing and then following through on an issuance plan every quarter in a way that can perhaps only be described as “Germanic”.

When the time comes to print, the ESM/EFSS ships out requests for proposal, drawing up first a long list of potential underwriters, and then whittling that down to a far shorter list. By then, the wise men (and a sole woman) sitting on its board of governors have a clearer picture of what prints are likely to suit the market on any given date.

Its prints, on almost every occasion, are brutally and simplistically effective: uneventful affairs whether issued into markets being buttressed by bulls or obliterated by bears.

The Luxembourg institution’s research team is widely respected, taking care to ensure that each sale tests the right portion of the yield curve. “They read the market well, and each print goes through a very structured process,” said Pierre Blandin, head of SSA debt capital markets at Credit Agricole.

“There is an RFP and a short list of banks, allowing them to see what maturity fits their needs and also the needs of investors.”

Moreover, they tend to take a long view on tenors and maturities that echoes the thinking of national governments.

“EFSF has an intelligent way of thinking about their access to the market that in some ways echoes the way sovereigns operate,” said Lee Cumbes, head of SSAR origination, EMEA, at Barclays.

By laying out their issuance calendar well in advance, they allow leading institutional investors “to prepare their portfolios and offer feedback as to the products they want to buy”, Cumbes said. The ESM/EFSS is also willing to think far outside the box. If you’re looking for plain-vanilla five-year maturities, they are happy to comply. On other occasions they are more than happy to test shorter sections of the curve.

Every so often, though, this lumbering behemoth surprises everyone, launching a print that no one had expected, and which looks decidedly daring, offering a gentle frisson of danger. Take the Aa1/AA/AA rated institution’s decision in May 2015 to print a blend of two and 30-year notes, raising €2bn from its sale of October 2017 notes and €750m from February 2045 print. It was a relatively rare dual-tranche tap, in this case of existing 2017 and 2045 bonds.

It was also a print that divided opinion. Some labelled it innovative; others saw the determination to press ahead with a dual-tranche tap as misguided, and even downright perilous. Launched into a market convulsed by volatility, it could have gone horribly wrong, had German bunds not tightened by 7bp that day.

The ESM/EFSS’s head of funding Siegfried Ruhl stressed the importance of printing rather than postponing: stabilising the market, he said at the time, was “part of our responsibility”.

There was execution risk, he admitted, but it was an “acceptable” level of risk. Yet bankers scratched their heads over the deal, conflicted over whether it was far-sighted effort to calm and soothe skittish investors, or a ham-handed print jammed into an ultra-defensive and volatile market. Why not simply print a good, short, benchmark trade that would have done an equally manful job at underpinning and reinforcing confidence. So much for the “boring” tag.

Will an institution needing to raise just €1bn more this year (all of it set to issued in the final quarter) and around €14bn in 2016, be willing to sail quite so close to the wind, the next time it comes to market?

That’s hard to say. The ESM/EFSS typically gives a lot of thought to ensuring that, at least in its own mind, it prints the right maturity that addresses the right portion of the curve.

“They have an ongoing interest in tapping the longer end of the curve,” said Credit Agricole’s Blandin. “They have shown a lot of flexibility in adjusting to market conditions.”

Likewise, they have also demonstrated a certain level of willing flexibility when adjusting to market conditions, appearing equally content whether issuing in bull markets (such as the months following the January unveiling of the ECB’s quantitative easing programme) or bear markets (such as bond market rout of late April–early May).

It is also willing to test unfashionable portions of the bond curve, where others fear to tread (again, underlining a willingness to briefly cast off its “boring” tag). Take its €2.25bn, 4 1/2-year benchmark bond maturing November 2019, issued May 27. Not only did that print prove irresistibly juicy for a long four-year note, dragging in orders of €3.6bn, but it succeeded in injecting confidence in a sagging market.

Barclays, Credit Agricole and Societe Generale were bookrunners on that print, another successful print from a curious European agency that can be uninspiringly boring every day of the month, yet can surprise you at the drop of a hat. ●

Sugar Plum Fairy in The Nutcracker adjusts her ballet shoe ribbons as she stands beside a guard

© REUTERS/Ben Gurr

European Financial Stability Facility





FINDING THE RIGHT DOSAGE

Germany's largest drug-maker is no stranger to the bond market and has hooked many a juicy worm. Last year was no exception, with banks eager to take whatever sliver of yield they could get.

BY ELLIOT WILSON

Every major corporate has a unique relationship with bonds. Some print them like they are going out of fashion, while others fear the very notion of going into debt, however briefly, seeing it as a funding measure of last resort.

Then there are those corporates that always seem content in their own skin. Typically large and mature, they issue debt securities either when conditions are ripe, or when pursuing a merger (or absorbing smaller or struggling prey). More often than not, they find a willing and receptive audience. Investors bend their knee – happy, particularly in the current super-low interest rate environment, to take whatever sliver of yield they can get.

Such a firm is Bayer. The 150-year-old multinational, once famed for commercialising the production of aspirin and heroin, has long been Germany's largest drug-maker.

In October 2014, it became a little bigger, after finalising its purchase of US rival Merck's consumer care business for US\$14.2bn. The deal allowed it to expand its share of the growing over-the-counter drugs trade by snapping up leading cold, allergy, dermatology and flu brands.

It also allowed Bayer to tinker with print structures. In July 2014, it brought a dual-tranche hybrid to market, raising €1.75bn (US\$1.97bn) through a 2075 non-call six issue that yielded 3%, and a 2074 non-call 10-year that yielded 3.75%.

The decision to issue in euros was a straightforward one for the German drug-maker, said Sarwat Faruqui, head of corporate syndicate at Citi.

Human genetic material is stored at a laboratory in Munich
© REUTERS/Michael Dalder

“It made sense for them to print in their natural currency, in that they were primarily focused on strengthening their balance sheet,” he said.

Do it well, do it quickly

BNP Paribas, Barclays, Citigroup, and HSBC were mandated to lead the deal, which was rushed into action as soon as Bayer secured approval from European and US competition regulators.

“When you’re talking about largish volumes of hybrid debt issued over a very short period of time, it’s critical that you do it well and you do it quickly,” said a banker involved in the sale.

By issuing the hybrid first, the Leverkusen-based firm was also able to maintain its Single A rating. It wasn’t the first time that year that Bayer had tapped the debt markets to hook a juicy worm. In early 2014, it flirted briefly with a hybrid print before issuing €2.5bn worth of senior notes, in part to pay for the purchase of Norwegian biotechnology firm Algeta.

Investors flocked to that sale, just as they did later to the July hybrid, attracted as much by the scarcity value of a Bayer bond as by the corporate’s brand strength.

“Bayer doesn’t come to market that often,” said Citi’s Faruqi. “They’re a very cash-generative company, and they don’t do financing unless they have a good reason to. So when they do visit the market, everyone pays attention.”

After the July hybrid came the larger but rather less flavourful main course. The bulk of the financing for the Merck acquisition had been carefully set in place. It came largely from two sources: a one-year, US\$12.2bn bridge to bond facility, and a US\$2bn, four-year term loan, underwritten by BNP Paribas, Mizuho and Bank of America Merrill Lynch.

The deal had implications beyond its sheer scale. At the time, it was the largest US-dollar loan facility launched by a German corporate borrower since 2007. It also presaged the return of big-ticket, loan financing-led European M&A deals. The bridge loan paid out an initial margin of 25bp over Euribor, while the term loan paid 50bp.

Hard work starts

Nor was Bayer finished. An issuer more at ease with steadily accumulating and hoarding cash than with going into debt (however briefly) to fund its long-term plans, it surprised pretty much everyone as the first quarter came to a close.

In the last week of March 2015, the firm issued a bumper hybrid drive-by print, setting out to market a 60-year non-call benchmark hybrid with a yield of 2.625%–2.75%, before finalising guidance on the €1.3bn print at 2.45%.

Investors again piled in, with the order book topping out at €5.5bn. Fund managers bought the bulk of the sale, which was underwritten by Deutsche Bank, Societe Generale, and RBS.

Now, for bankers at least, the hard work starts again. Banking a blue chip that regularly dips its beak into the debt markets isn’t simple, but it can be easier than dealing with intermittent issuers like Bayer. How do bankers go about reminding such blue chips that they exist?

“There is no substitute for being in constant contact with corporate clients,” said a debt banker at a leading European lender.

“You need to make them aware of interesting and exciting opportunities. So if there’s a reason for them to consider a 30-year print that day, even if there’s one chance in a hundred they’ll even consider it, it would be remiss of you not to mention it in passing. It’s all about laying the groundwork.” ●



The corporate logo of Bayer
© REUTERS/Carlos Garcia Rawlins



SHOP TILL YOU DROP

The separation of Westfield into two distinct units has been welcomed by fixed-income investors but will its credit metrics survive a commercial real estate downturn?

BY JONATHAN ROGERS

Australian retail property giant Westfield, a global developer of shopping malls, merged its Australian and New Zealand assets in 2014 with Westfield Retail Trust to create Scentre. Investors hailed the merger, with Scentre bringing some highly successful trades and Westfield continuing to issue. But could the group's metrics deteriorate as the froth comes off the Aussie property bubble?

The A\$70bn spin-off of Westfield's Australasian shopping malls to Westfield Retail Trust gave Westfield shareholders around 50% ownership of Scentre but was not without controversy, with grumbles that the trust might have overpaid for the assets.

Initially, Westfield Retail Trust shareholders appeared on the verge of rejecting the deal on the basis that they

would be saddled with a debt-laden enterprise at too high a price.

A second vote saw the deal approved, and the group comprises Westfield Corporation, which owns malls worth A\$27.7bn in the US and United Kingdom, and Scentre which owns malls in Australia and New Zealand worth A\$39.4bn. Westfield Retail Trust shareholders own 51.4% and Westfield security holders 48.6% of Scentre respectively.

The enterprise is run by the Lowy family under the chairmanship of Frank Lowy, who opened the company's first mall in Sydney in 1959 after emigrating to Australia from Hungary via Israel in the early 1950s.

Westfield saved considerably on fees and emphasised the competence of its management when it self-arranged last year a stratospheric A\$22bn (US\$20.4bn) loan to finance the restructuring, which eventuated in

Shoppers guard their stashes of wedding dresses at Filene's Basement during a "Running of the Brides" bridal dress sale in New York
© REUTERS/Lucas Jackson

the emergence of Westfield Corp and Scentre Group. The deal comprised A\$14bn of two-year bridge facilities and A\$8bn of two to six-year bank facilities.

Solid relationship

Some 20 banks participated in the transaction, keen to maintain a solid relationship with one of Australia's key corporate issuers. The ratings agencies were not enamoured of the restructuring however, with both Moody's and S&P knocking Westfield's Corp's rating down a notch to A3 and to BBB+ respectively after the loan closed.

Whatever the complexities of the present structure, there's little doubt that Westfield has been the darling of the G3 debt capital markets over the past decade or so, and the newly created Scentre has had little problem in attracting investors.

In July 2014, the company made a stunning market debut, printing a €2.1bn (US\$2.3bn) four-tranche deal in euros and sterling that represented the biggest debut issue from an Australian corporate enterprise outside the commodity or FIG sectors.

It followed this up with some hyperactive issuance, bringing two US dollar Global deals within a week in November, comprising a US\$750m five-year and a US\$600m 10-year. Both were priced well within guidance and inside the implied Westfield curve.

And in April, Scentre raised US\$1bn through a six and 10.5-year Global issue, managing to print with tight concessions versus its implied curve. This was a welcome contrast to the sterling trade that Scentre brought in early April after a three-week marketing drive and that garnered a scant initial £750m book for a £400m print.

All told, Scentre has successfully visited the offshore debt market four times since its inception, rather impressive for a newly minted enterprise. Equally impressive was Westfield Corp's ability to raise US\$3.5bn last September in a four-part transaction that appeared to demonstrate that the markets have fully embraced the company's restructuring.

The deal, which took out a bridge – the loan markets have been perennially as friendly to Westfield Group as the bond markets have been – came in through the

company's implied curve and attracted a chunky US\$12.8bn book for more than three times cover.

Auspicious reception

Despite this apparently auspicious reception from bond investors, many express concern that the debt levels at Scentre, which rose from A\$2.9bn to A\$12.2bn after the restructuring (admittedly with a concomitant rise in assets from A\$13.7bn to A\$28.6bn), might lead to debt service stress should the Australian property boom reverse and with it rent levels.

This has been a concern for Westfield equity and bond holders for at least five years, as Australian property prices have soared; but the Aussie property market, despite being massively overvalued in terms of affordability based on household incomes, has been remarkably resilient.

The group is hedged on the basis of its geographically diversified portfolio and sits on prime real estate that retailers prefer over any other (with long leases including built-in rent increases) and has a record of pouncing opportunistically on any property downturn.

"It's tempting to look at Westfield and suggest that the group is a debt-laden play on property values and the strength of the retail market in the countries where it operates. But it is a fierce generator of cash and has as solid a management record as you can find," said a Hong Kong-based loan banker.

Nevertheless, it's worth going back to what Moody's wrote in a ratings report in late 2013 when the restructuring was first proposed.

"The loss of the Australian assets – which we consider to be among Westfield's best shopping centre assets – will have a significant negative impact on Westfield's business profile ... if the restructure proceeds, as planned, Westfield's credit profile would be weaker as a result of the lower asset quality, narrower asset base, and diversity."

On that basis, given a choice between buying into Westfield debt or the spun-off Scentre, the latter looks more appealing. There should be ample opportunity to make this relative call over the next few years as both subsidiaries show no sign of pulling back from debt-funded expansion. ●



Shoppers crowd the walkways on opening day of the Westfield Stratford City shopping centre in east London
© REUTERS/Suzanne Plunkett



OPPORTUNITY KNOCKS

Amid historic reforms to Mexico's energy sector, oil giant Pemex has been more active than ever in the capital markets as it looks to diversify its financing strategy and prepare for a hike in US rates.

BY JOEL CLARK

It has been, by any yardstick, a year of transition for Pemex. With sweeping reforms set to open up Mexico's energy sector to foreign participation and break the monopoly it has held for 77 years, the state-owned oil company has restructured its business and diversified its funding sources to prepare for a very different operating environment.

The controversial energy reforms were approved by the Mexican government in December 2013, with the aim of modernising a sector that has been nationalised since Pemex was established in 1938. As the government auctions off valuable oil assets to international bidders, the country is braced for the influx of global energy giants eager to tap a market they had previously been locked out of.

That could be a daunting prospect for Pemex, a company that has enjoyed full state support without competition for its entire existence. But it also brings opportunities to accelerate the diversification of a financing strategy that had previously focused fairly narrowly on US dollar-denominated debt.

"We are working to increase the financing tools we have, and will continue to be a very active debt issuer while also retaining a significant part of our operating income for financing. Our strategy is to enhance the diversity and efficiency of our programme," said Rodolfo Campos, treasurer of Pemex.

Pemex has been particularly active so far this year, and by the end of the first quarter its total financing activities amounted to US\$9.73bn, set against a net indebtedness target of US\$15bn for the full year 2015. Highlights so far have included a €2.25bn bond issue

A bullring employee carries seat cushions before the start of a bullfight in the northern Spanish town of Gijon
© REUTERS/Eloy Alonso

with seven and 12-year maturities in April, and a three-tranche US\$6bn issue in January with five, 10 and 30-year maturities.

Comfortable position

The decision to complete so much of its target issuance so early in the year has been based partly on the widespread expectation of a rise in US interest rates in the second half.

“We expect rates to be hiked in September rather than June, and although it has already been priced in to some extent, the markets will be very volatile towards the end of the year, even if the underlying message is positive,” said Campos.

“Having issued large amounts in dollars, euros and pesos in the first half, we are in a comfortable position ahead of that volatility. If we see a decent opportunity, we may issue more, but we are positioned to be more conservative in the second half, if necessitated by market conditions.”

Most of Pemex’s income is either denominated in or linked to US dollars, so it had typically issued in dollars in the past, but the company is gradually now tapping other markets, most notably the local peso market.

In November 2013, it set up a market-making programme to bolster secondary market liquidity in peso-denominated bonds. Current market-makers are BBVA Bancomer, Banamex, Scotiabank, Bank of America and HSBC.

As of March 31 2015, 75.4% of Pemex’s debt exposure was denominated in US dollars and 23.4% in Mexican pesos, whereas at the same time last year 80.2% of its exposure was denominated in US dollars and just 18.9% in pesos. As part of its risk management, Pemex swaps bond issues to achieve a target debt exposure, but the split in exposure highlights the diversification strategy it has been pursuing.

Alternative curves

“From a risk management perspective, it makes sense to have a significant portion of our debt denominated in dollars, but with the objective of diversifying the investor base, we are developing other curves. The market-making programme means that we have a group of banks committed to providing liquidity to potential investors in peso-denominated bonds,” said Campos.

Although the vast majority of its debt is still issued either in dollars or pesos, Pemex is focused on expanding further afield. Having returned to the eurozone in late 2013 after a four-year hiatus, it has remained active in that market, and is also considering the addition of a fourth curve. Possible outlets for issuance include the Samurai market in Japan, Canada’s Maple market and the sukuk market.

“The challenge is that this industry is dominated by long-term projects, so longer tenors are always preferable, but to develop a curve it is usually only possible to start with short-term issues. As long as we can tap the market frequently, with the equivalent of at least US\$1bn, we would be willing to issue in small tenors at first and gradually increase them,” said Campos.

Enhancing the accessibility of its debt to foreign investors has also been a priority, and Pemex has worked with custodians and fiscal authorities to make its bonds eligible for European settlement utility Euroclear. In a landmark issue in January, Pemex raised Ps8bn (US\$536m) from local investors and Ps9bn (US\$603m) through the new Euroclearable Cebures channel.

“For the first time in our history, this was a transaction that attracted greater participation from foreign investors than local investors, which proves we have a positive story to tell and can further diversify our investor base as we look to new markets,” said Campos. ●



The logo of Mexican petroleum company Pemex is seen on a tank gas at gas station in Mexico City
© REUTERS/Edgard Garrido



FAR-REACHING AMBITIONS

Altice-backed Numericable gave a master-class in how to manage a banking syndicate when it clocked up a record high-yield bond offering to fund its US\$23.3bn acquisition of SFR.

BY DAVID ROTHNIE

In just over a year, Patrick Drahi has transformed Altice into a major player on the European telecoms scene, and led it on to the global stage with its first US cable acquisition. But what stands out is the company's expertise in marshalling a motivated banking syndicate to match its founder's ambition and re-set the bar for jumbo acquisition financings.

Between April 2014 and January 2015, Numericable and Altice raised a combined US\$22bn in the bond markets, amassing total orders of US\$160bn as Drahi acquired French mobile company SFR from French conglomerate Vivendi and Portugal Telecom from Oi.

Numericable, in which Altice holds a 70% stake, may never have won the battle with Bouygues Telecom for control of SFR, the French mobile business of Vivendi, last year without a committed and flexible banking group.

"Altice has built through acquisition and it likes to move fast and secure quick commitments from its banks," said one senior lending source to the company. "Also, we know they don't waste time on deals that only have a small chance of success, so that makes it easier for us to commit."

Altice CFO Dennis Okhuijsen's strategy was to hire banks on an exclusive basis, which increased their motivation and also weakened the ability of Bouygues to mobilise firepower. Thanks to his experience in the sector – he was corporate treasurer of cable giant Liberty Global before joining Altice in 2012 – Okhuijsen had relationships with the top high-yield debt providers.

The decision to split the financing between Numericable and Altice was taken because Vivendi held a 20% stake in the new company Numericable SFR and didn't want Numericable to exceed an agreed leverage threshold.

A giraffe takes an apple from a television crew at the 'Serengeti' Safari park in the northern German village of Hodenhausen
© REUTERS/Christian Charisius

“Four times was too high, they were looking for three times, so they raised the rest through Altice,” said one member of the banking syndicate.

The deal hit the market just as the Ukraine crisis was escalating, but the geopolitical instability appeared to play into Altice’s hands, as investors favoured big deals with strong liquidity.

Making history

Altice and Numericable made history not just by printing the biggest high-yield deal on record but also by securing an order book of US\$100bn, the biggest in the history of capital markets, as 99 out of the top 100 high-yield investors participated in the transaction and 400 accounts in all.

The US dollar and euro deal was initially announced on April 14 as €6.04bn-equivalent of five-year non-call two-year notes, eight-year non-call three and 10-year non-call five notes from Numericable and €4.15bn-equivalent of eight year non-call three notes from Altice. In addition, the company announced a €6.55bn loan package.

The flood of orders for the bonds persuaded the banks to increase the size of the Numericable bond issue at the expense of the loan packages. The Altice holdco debt was whispered at 200bp back of the Numericable eight-year tranche, equating to low 8% pricing.

Altice had access to swaps from all eight banks in the syndicate so was not tied to a particular currency, giving banks’ licence to secure the best price and flexibility over duration. With dollars offering the cheapest financing, the bookrunners scaled down the euro tranches, which in turn sent demand sky-high, and pushed down the price to the company.

That also meant some disgruntled euro investors walked away empty-handed. The banks were back-stopping the long-term capital at a certain rate, so as long as they achieved a price below that level they had flexibility to use either bonds or loans. As a result, the deal was re-cut several times.

With regards to the three dollar tranches from Numericable, the five-year deal was upsized from US\$920m to US\$1.8bn, and finally to US\$2.4bn, with pricing at 4.87%. The eight-year deal began at US\$2bn, was raised to US\$4.2bn and then reduced to US\$4bn before printing at 6%.

The 10-year deal was downsized to US\$1.35bn from US\$2bn, ending at 6.25%. The Numericable US\$2.4bn five-year tranche was priced at 4.875%, the US\$4bn eight-year came at 6% and the US\$1.375bn 10-year tranche – downsized from US\$2bn – came at 6.25%. The company also priced a €1bn eight-year tranche, which was upsized to €1.6bn before being reduced, at 5.375% and €1.25bn of 10-year notes – upsized from €1bn – at 5.625%. A proposed €500m five-year tranche was dropped.

Back in the market

The Altice US\$2.9bn bond was priced at 7.75%, with the €2.075bn bond at 7.25%. JP Morgan was lead-left bookrunner on the Numericable opco bond, while Goldman Sachs was lead-left on the Altice holdco bond. The pair were global co-ordinators on both tranches, along with Deutsche Bank, which was also lead-left on the loan.

Altice returned to the dollar market again in January 2015 with a US\$5.3bn-equivalent bond backing its acquisition of Portugal Telecom. While the order book was not as big, the deal enjoyed a higher level of oversubscription and enabled the leads to tighten pricing and leave almost nothing on the table.

This time, Altice raised around 65% of the acquisition financing at Altice International, with the remaining 35% raised at the listed Altice SA holdco.

Altice International priced its 8NC3 senior secured notes at a 6.625% yield on the US\$2.06bn tranche and at 5.25% on the €500m tranche. Its US\$385m 10NC5 senior notes were priced at a 7.625% yield. International also raised a €841m-equivalent term loan. Altice SA, meanwhile, priced a 10NC5 senior bond at 7.625% on the US\$1.48bn tranche and 6.25% on the €750m tranche.

Goldman Sachs was lead-left bookrunner on the Altice International deal and JP Morgan was lead-left on the Altice SA deal.

Altice shows no sign of stopping its acquisition spree. Its US\$9.1bn acquisition of US cable operator Suddenlink provides an entry into the US market, where it wants to generate half of its revenues in future. Meanwhile, it was in early-stage talks to acquire Time Warner Cable before Charter Communications bought the business for US\$55bn.

Altice has a history of buying under-developed businesses and then increasing margins through a rigorous cost-cutting process, giving it a strong appeal to credit investors who have enjoyed strong returns from the telecoms sector. However, with three deals under its belt in the last year, Altice faces a big execution challenge before pressing ahead with plans to earn half of its revenues from the US.

Analysts at Standard & Poor’s said Altice should integrate Suddenlink before continuing on its acquisition spree. “We think this acquisition could create some challenges for management at group level, as it will be entering a new market with a very different commercial environment to European cable markets,” they said.

“These challenges are heightened as this acquisition comes during a period when Altice’s management is focusing much of its attention on other substantial recent acquisitions.” ●



Patrick Drahi, Franco-Israeli businessman, executive chairman of cable and mobile telecoms company Altice and founder of Numericable, arrives to attend a news conference in Paris

© REUTERS/Philippe Wojazer



GARGANTUAN REPUTATION

Sinopec earned its chops this year with a record-breaking dual trancher. But was this as good as it gets as China looks to reform its bloated SOEs? The prospect of being broken up heralds a new issuance landscape for the China state-owned oil industry.

BY JONATHAN ROGERS

Sinopec has earned a reputation in the offshore G3 markets for producing deals of huge sizes and the ability to tap opportunistically, with bulky prints being the modus operandi. It has benefited from its perception among foreign investors as a sovereign proxy, but change awaits as China seeks to reform its creaking state-owned enterprises.

Hong Kong, Shanghai and New York-listed China Petrochemical Corp, Sinopec for short, broke records last year by printing the largest US dollar bond from a Chinese SOE and the biggest seen from Asia in 11 years.

Coming in at US\$5bn in multi-tranche Global format, the deal underlined the overwhelming appetite for investment at the top level of China Inc, despite fears of

an economic slowdown in the country and in the knowledge that China's domestic debt is at stratospheric levels.

In an approach that showed a keen sense of market timing and imagination, the oil giant tapped this issue barely two months later, adding US\$1bn through fixed and floating-rate notes totalling US\$600m and US\$400m of the original 10-year, which was tapped at a symbolically "look at me" price some four points above the original print.

Such was the demand for high quality debt and duration last year, when fears of Federal Reserve normalisation and the great global debt unwind were off the radar.

A similar exercise in the production of the debt markets leviathan was pulled off this year when the company printed in April a US\$6.4bn five-tranche Global

Xing Yile (L), a middle school art teacher, works with his friend on their homemade replica of the "Hulkbuster" Iron Man armour from the movie "Avengers: Age of Ultron", in Zhengzhou, Henan province, China
© REUTERS

that included five, 10 and 30-year US dollar pieces and three and seven-year euro tranches.

Solid demand for the paper was uncovered onshore in China, in Taiwan and South Korea in the hope of booking foreign exchange gains on the back of expected local currency declines versus the US and European units.

But the backdrop to this deal was less quiescent. Markets are more testy towards the impact of Fed rate rises on the mountain of global debt that has built up since the financial crisis, prodded by quantitative easing in the US, Japan and the European Union.

This was the perception among many market participants when Sinopec priced the deal, although there's no denying that the European central bank's unleashing of liquidity earlier this year with its QE programme helped propel the deal's euro tranches.

Since Sinopec's last jumbo foray, there have been two PRC debt defaults – from SOE Baoding, a military contractor, and Kaisa Group Holdings, a property developer – and the level of local government debt in China as well as the perception of a less than pristine corporate governance culture at the SOEs means that business as usual in the international debt capital markets for Sinopec might be a challenge.

The received wisdom in China now, something voiced even by communist party mouthpiece the People's Daily, is that the country needs to reduce the number of its SOEs, from the current 112 down to the 30–40 range.

The aim is to reverse the spiral of return on assets at the bloated, poorly run SOEs, where ROA has declined by about 30% over the past eight years. A favoured conceit is the idea that Sinopec and its oil major peer PetroChina should be forced to merge.

“There is a need to reform the SOEs, and in this regard it's likely that China will become Asia's leading source of debt restructuring over the next few years,” said a Singapore-based syndicate head.

“As far as Sinopec is concerned, it might go off with little fanfare. Indeed, last year when the company restructured its fuel marketing division, the market was agog with admiration and the company's share price went through the roof.”

In March last year, Sinopec unveiled a plan to restructure its fuel marketing division and sell up to 30% of the subsidiary's assets to private investors.

The inefficiencies of state fuel price controls and high costs at the division helped explain why Sinopec was trading at a discount to other oil majors such as ExxonMobil in terms of price to estimated profit of around five times. The move to rationalise the fuel marketing division was seen as a stratospheric shift in strategy at Sinopec and more in line with the kind of radical market-based approach seen at large Western firms.

Perhaps less happily for shareholders, Sinopec appears to have been caught up in Chinese Premier Xi Jinping's drive to weed out irregularities in the country's machines of state. Last December, Xue Wandong, president of Sinopec's Oilfield Services Corp, was sacked and placed under investigation for unspecified reasons. This came just after talk that SOSC was planning a US\$1.5bn IPO in Hong Kong.

“The Chinese authorities don't like to see an ‘SOE discount’ in relation to the large Western companies and are doing all they can to rationalise the operations of the big SOEs and clean up corporate governance to get their stats up with their international peer group. That can only be good news for shareholders and debt holders in the long run,” said the syndicate head. ●



A Sinopec gas station is seen behind traffic lights in Hong Kong
© REUTERS/Bobby Yip



SET IN TONE

With a US\$200bn capital return programme to fund by 2017, Apple has completed this year's funding by looking beyond the domestic market.

BY ADRIAN MURDOCH

It is almost as though the Apple debt programme were created by Sir Jonathan Ives himself, the company's much lauded chief designer famed for the sleek industrial look of its products. With four deals and very little issue premium, tech company Apple (Aa1/AA+) has pretty much completed its US\$17bn funding requirements for 2015.

The Cupertino-based company set the tone in February with a US\$6.5bn five-tranche deal through Deutsche Bank and Goldman Sachs.

The company's third trip to the bond market in as many years was as eagerly awaited by investors as the latest iPhone release is by early adopters.

The tranches were split into a US\$1.25bn five-year fixed-rate piece, US\$500m of five-year floating-rate

notes, a US\$1.25bn seven-year, a US\$1.5bn 10-year, and a US\$2bn 30-year piece.

Although there were uncharitable mutterings that the book was not as large as it had been in the past, at US\$20bn it was more than respectable by most standards and allowed the company to upsize from the US\$5bn it had been expecting to raise. Concessions too were minimal – nothing on the shorter pieces and only 5bp–8bp on the longer tranches.

This was followed by a four-tranche US\$8bn deal in early May via Goldman Sachs, Bank of America Merrill Lynch and JP Morgan. Again comfortably oversubscribed, Apple did have to pay a 10bp premium on all tranches, but this had more to do with market conditions than the credit itself.

What has driven issuance for Apple for the past few years is a programme to return US\$200bn of capital to

Eric Jousse, curator of the exhibition "Histoire en Briques Lego" adjusts a figurine depicting Napoleon in the Malmaison Castle, made with 19,000 Lego bricks in 145 hours
© REUTERS/Yves Herman

shareholders by the end of 2017. From the inception of its capital return programme in August 2012 until March this year, Apple has returned more than US\$112bn to shareholders, including US\$80bn in share repurchases.

“While most of our programme will focus on buying back shares, we know that the dividend is very important to many of our investors, so we’re raising it for the third time in less than three years,” said Apple’s CEO Tim Cook.

It is sometimes hard to remember that until 2013 Apple had never visited the debt global markets for the simple reason that it had no debt. But, as founder Steve Jobs frequently noted, success is in the details.

Recognising that it is cheaper to fund both the share buyback scheme and dividends via debt rather than through its significant US\$178bn offshore cash reserves – which would require the company to pay tax – the company sold its first US\$17bn deal in February 2013. It was followed up last year with an even more successful US\$12bn seven-tranche bond issue that attracted a book of US\$41bn and allowed the company to print pretty much flat to its existing issues in the secondary market.

What is significant now is that the company is looking abroad for funding. It is true, of course, that Apple did debut in euros last year. It sold a dual-tranche €2.8bn (US\$3.06bn) deal at eight and 12 years, both of which were priced at the tight end of guidance and performed well in secondary trading.

Beyond the US

But there are two reasons that Apple is looking outside the US. The first is to trade on the famous Apple mystique. At the end of May, the tech company knocked sector rival Google off its perch to reclaim its position as the world’s most valuable brand again, according to the BrandZ top 100 brand rankings compiled by Millward Brown, a research agency owned by WPP.

So despite having raised US\$48bn in the markets over the past couple of years, using other currencies allows the company to play on the same rarity value it does with its

products. This has allowed bookrunners to build sizeable books and tighten pricing.

The second reason is the swap. When swapped back into dollars, issuance in other currencies has been cheaper for Apple while still offering a meaningful coupon for investors.

A couple of weeks after its US\$6.5bn deal in February, Apple sold a SFr1.25bn (US\$1.34bn) two-tranche deal that, with a certain amount of inevitability, was immediately named the iSwissie.

Through Goldman Sachs and, this time, Credit Suisse, Apple split the considerably upsized deal into a SFr875m 10-year tranche and a SFr375m 15-year tranche. The longer tenors were needed because of the negative swap rate in the Swiss franc out to nine years.

The bond’s subsequent textbook performance – both pieces duly tightened – has allowed Apple to look east. In early May, it mandated Goldman Sachs and Mitsubishi UFJ Financial Group to arrange investor meetings ahead of what is likely to be a ¥200bn (US\$1.62bn) Samurai.

Thanks to rock-bottom interest rates, the Japanese market makes sense for Apple.

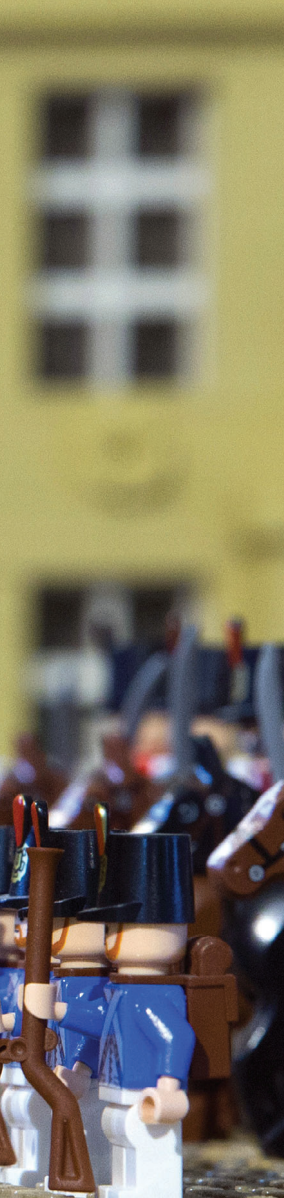
The bonds will target Japanese investors looking for a decent pick-up over domestic treasuries.

That will still allow Apple to swap back to US dollars with a significant cost saving.

By any stretch of the imagination the bond, which is expected to appear in June, is going to be one of the deals of the year. Certainly, it will be the biggest issue by a foreign company in the market since Citigroup’s six-tranche fixed and floating ¥270bn transaction in June 2007.

Once that is completed, Apple is in the fortunate position of being able to issue in euros or even in sterling if market conditions are right, but crucially it doesn’t need to.

“We view Apple’s financial risk profile as minimal,” said S&P in a report at the end of last year. That will allow Apple to sit back and whip up the same kind of frenzy that it does for its products. ●



The Apple logo is lit on the first day of sale for the iPhone 6 and iPhone 6 Plus, in Sydney
© REUTERS/David Gray



Zheng Feng, an amateur climber takes wedding pictures with his bride on a cliff in Jinhua

© REUTERS/China Daily

ONCE BITTEN, TWICE LUCKY

AbbVie's US\$16.7bn M&A financing for its acquisition of Pharmacyclics represented a triumph following the cancellation of an earlier deal after the US tightened up on inversion trades

BY DAVID ROTHNIE

US Pharmaceutical company AbbVie has endured a roller-coaster ride in the global healthcare M&A boom, first abandoning a bid for UK rival Shire before clinching a US\$21bn acquisition of drug company Pharmacyclics.

AbbVie was created three years ago in a spin-off from Abbott Laboratories to house its pharmaceuticals business and so is a relative newcomer to the bond markets, having wowed investors with a US\$14.7bn debut in November 2012.

As such, AbbVie, rated Baa1/A, has only used the capital markets to fund big-ticket acquisitions, focusing on a need to take-out size, rather than tightening the price down to ensure a razor-thin concession. That made issuing in the dollar market – the world's deepest and most liquid capital market – a no-brainer.

Following its debut in 2012, AbbVie took out loans in 2014 to help finance its planned acquisition of UK-based Shire Pharmaceuticals.

However, in October it dropped its bid as US Congress tightened the rules allowing companies to buy foreign targets in so-called inversion trades, which enabled US companies to re-domicile and avoid paying tax on overseas revenues.

That prompted AbbVie to cancel the £13.5bn of acquisition loans and also reduced a revolving credit facility that was arranged in August by JP Morgan, Bank of America Merrill Lynch and Morgan Stanley to US\$3bn from US\$4bn. The revolver was set up to cover general corporate and working capital of the merged company.

Back on the trail

After missing out on Shire, AbbVie hit the deal trail again as the global healthcare M&A boom powered ahead. On

March 4, it announced it was acquiring Pharmacyclics for US\$21bn and investors were well prepared for the bond refinancing.

Andrew Karp, co-head of Americas investment-grade capital markets at Bank of America Merrill Lynch, one of the leads, said: "As with all big M&A trades, the company had to strike the balance between de-risking the trade, avoiding negative carry and holding off until it had certainty that the deal was going to close."

AbbVie came to the bond market during a period of strong technical bid for high-grade paper, and was able to exploit the continuing low-rate environment. Karp said, adding: "The technicals were strong, the market knew it was coming and investors had made room for it. The deal went extremely well."

Even so, AbbVie was careful to ensure it hit the market ahead of a barrage of competing supply. In retrospect, it timed its entry well by as it tapped the market on May 5, the start of a week that was to bring bumper supply from Shell and Apple.

AbbVie's was the best received of those trades as it peppered the curve with a six-part US\$16.7bn deal, the third-biggest trade of 2015 and the sixth-largest corporate bond ever.

Lead bookrunners BofA Merrill, Barclays, Deutsche Bank and Morgan Stanley were swamped with US\$60bn of orders, enabling them to tighten pricing by 15bp on each tranche.

Ultimately, AbbVie sold US\$3bn of three-year bonds at T+85bp, US\$3.75bn of five-year bonds at T+105bp, and US\$1bn of long seven-year bonds at T+130bp. Further out across the curve it sold US\$3.75bn of 10-year bonds at T+145bp, US\$2.5bn of 20-year bonds at T+165bp and US\$2.7bn of 30-year bonds at T+180bp. ●

A screen displays the share price for pharmaceutical maker AbbVie on the floor of the New York Stock Exchange
© REUTERS/Brendan McDermid





THE PARENT TRAP

European concerns about systemically important banks have raised the cost of borrowing for Credit Suisse as it borrows both from a holdco and an opco.

BY ADRIAN MURDOCH

When Tidjane Thiam was appointed as the successor to Brady Dougan in March this year as chief executive of Credit Suisse it was a change of direction for Switzerland's second-largest bank. Shares in the bank lifted 7.5% the day after the news was announced.

Part of the reason that Thiam's accession has been so welcomed, is his background in insurance. While Dougan's strength is investment banking, Thiam's experience in government (as minister for planning for

his native Cote d'Ivoire) and senior roles at insurance companies Aviva and Prudential is what the bank needs now.

Change has been in the air for years, but a tipping point was the decision by S&P to downgrade the holding company ratings of Credit Suisse Group AG from A- to BBB+ in November.

"Extraordinary government support is now unlikely," the ratings agency said. "Even if the Swiss government decided to support the operating companies of systemic Swiss banks, we now consider that it is uncertain whether the government would be willing to extend that support to holding company creditors," it added.

A Baltimore Ravens cheerleader falls during a stunt at cheerleader training camp at Deep Creek, Maryland
© REUTERS/Jason Reed



This is all part of the EU's Bank Recovery and Resolution Directive and the long-running European debate about bank financing and concerns about bank liquidity in the face of another economic crisis. Although Switzerland is not in the EU, it pays attention to European banking directives, especially with regards to Credit Suisse and rival bank UBS which are deemed too big to fail.

Swiss regulator L'Autorite federale de surveillance des marches financiers (FINMA) has said that were there another crisis, it likes the idea of a "single point of entry" approach. This would allow for resolution at the level of the bank's ultimate parent instead of the operating company that is in trouble.

The presumed lack of government help and the need to sell bonds to meet total loss-absorbing capacity has dramatically shaped Credit Suisse's bond issuance this year. Financial advisory company Kepler Cheuvreux estimates that Credit Suisse needs an extra SFr6bn (US\$6.44bn) to bring its core capital levels up to those of UBS.

It is something that the bank recognises. In its annual report, the bank bluntly stated: "We plan to issue senior unsecured debt in 2015, which should qualify for future capital treatment under the total loss-absorbing capacity rules. With this, we are further developing the possibility to absorb losses at the group holding company in order to facilitate a single point of entry bail-in resolution strategy, as set out in FINMA's bank resolution guidelines".

Behind the good news

All good news, but what this has meant in practice is an increasing divergence both in terms of tenor and in spreads between whether issuance comes from the holding company, Credit Suisse Group AG or the operating company Credit Suisse AG. The difference can be seen first and foremost in the ratings. The former is Baa2/BBB+/A while the latter is A1/A/A.

The Swiss bank debuted its holdco debt at the end of March and in the Yankee market. It sold US\$4bn five and 10-year self-led holdco notes split into US\$1.5bn and US\$2.5bn tranches. The former priced at US Treasuries plus 137.5bp while the longer tranche priced at US Treasuries plus 187.5bp. It printed another Yankee deal, a 30-year this time, in mid-May. The US\$2bn self-led 2045s priced at Treasuries plus 187.5bp.

The first US dollar deal was followed soon afterwards by issues in Swiss francs, euros and then sterling. The Swiss franc deal was originally a SFr825m eight-year at mid-swaps plus 100bp level (it was later upsized to SFr1bn); the next was a €2.25bn seven-year at mid-swaps plus 100bp; and then £600m seven-years at IPTs plus 147bp.

Two points stand out in these deals. First is the long tenor on the paper. The shortest is five years but the long end is where the weight is and the bank has gone out to 30 years. What also stands out is the premium that the bank had to pay for the risk that it might be bailed in. That on the US dollar, the Swiss franc and the euro deals was between 40bp and 50bp; while that on the sterling deal was nearer 55bp.

The difference between holdco and opco issuance is clear. The latter clearly has a shorter tenor and is cheaper, to the tune of around 50bp. The operating company debt that was issued at the end of March is typical. It sold a dual-tranche senior unsecured transaction made up of a €2.5bn two-year FRN at Euribor plus 35bp and a €1bn three-year at bond at mid-swaps plus 45bp area.

Will that differential between the holdco and opco tighten? In all likelihood it will, probably to around 35bp, but as the hunt for yield continues, there is little chance of investor appetite for Credit Suisse debt drying up. The challenge for Thiam as he takes the helm of the bank – he officially started on July 1 – is to keep the bank on the steady path that both regulation and the post-crisis banking world have created. ●



The logo of Swiss bank Credit Suisse
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BORROWER	RANKING	BORROWER	RANKING	BORROWER	RANKING	BORROWER	RANKING
3CIF	193	CME	144	Iberdrola	158	Rabobank	29
Abbott Laboratories	197	CMHC	18	IBM	79	RBC	124
AbbVie	38	CNOOC	231	ICBC	81	Renault	213
ACS	210	Coca-Cola	105	IDB	50	Rentenbank	75
Actavis	2	COFCO	219	IFC	159	Reynolds American	126
ADB	68	ConocoPhillips	70	Illinois Tool Works	229	Rite Aid	202
AECOM	239	Credit Agricole	44	Imperial Tobacco	89	Roche	170
AFD	217	Credit Mutuel	133	ING	65	RWE	224
AIG	111	Credit Suisse	27	Intesa Sanpaolo	117	Sanofi-Aventis	74
Alcoa	227	CRH	188	IPIC	243	Santander	10
Alibaba	128	DAIG	131	Ireland	151	SAP	78
Altice	76	Daimler	121	Italy	5	Schaeffler	118
Amazon	183	Danske Bank	146	Itochu	60	SGVHT	206
America Movil	245	DaVita	171	JM Smucker	161	Shell	96
American Express	233	Deere & Co	129	Johnson & Johnson	59	Siemens	192
American Tower	209	Deutsche Bank	15	JP Morgan	6	Sinopec	157
Amgen	135	Deutsche Borse	250	KfW	3	Sky	45
Anadarko	120	Dexia	31	Kinder Morgan	47	SMFG	186
ANZ	127	Dollar Tree	166	Koch Industries	110	SNC-Lavalin	234
AP Moller-Maersk	235	Dominion Resources	232	Kommunalbanken	190	Societe Generale	113
APA	168	Dow	198	Korea Eximbank	194	Southwestern Energy	208
Apple	115	DTCC	71	LabCorp	189	Spain	4
Aramco	91	Dufry	152	LBBW	203	Standard Chartered	104
ArcelorMittal	165	Duke Power	178	Liberty Global	182	Statoil	207
Argentina	216	Dynegy	241	Lloyds	54	Suncor Energy	211
AT&T	7	EDP	147	Lone Star Funds	200	Svenska Handelsbanken	238
Austria	88	EFSF	26	MacAndrews & Forbes	246	Swedbank	248
Baden-Wuerttemberg	230	EIB	1	Macquarie	153	Sweden	87
Ball	181	Eiffage	214	Medtronic	11	Tata Steel	132
Bank of America	42	Enbridge	77	Merck & Co	32	Telecom Italia	82
Bank of China	97	Enel	101	Merck KGaA	57	Telefonica	85
Bank of Nova Scotia	90	Energy Future	218	MetLife	123	Tesco	191
Barclays	40	Energy Transfer Partners	184	Mexico	136	Time Warner	205
Bayer	25	Equinix	84	Microsoft	130	TD Bank	41
Becton Dickinson	63	ESM	155	Mitsubishi	187	Total	61
Belgium	80	Exelon	73	Mitsubishi UFJ Financial	93	Toyota	19
Berkshire Hathaway	114	Express Scripts	145	Monsanto	160	Trafigura	95
Berlin	156	Exxon Mobil	49	Morgan Stanley	12	Tyson Foods	92
BHP	172	Fannie Mae	8	NAB	69	UBS	106
BlackRock	167	FCC	244	Nationwide	99	UK	17
BMW	125	FGP Topco	225	Nestle	102	UNEDIC	138
BNG	62	FHLBanks	39	NextEra Energy	177	UniCredit	108
BNP Paribas	109	Fiat	66	Nordea Bank	141	United Technologies	237
BNY Mellon	180	Finland	119	North Rhine-Westphalia	53	US Bancorp	164
Boeing	228	FMS Wertmanagement	83	NRW.Bank	122	Valeant	64
BP	103	Ford	23	NWB	86	Verizon	30
BPCE	14	Freddie Mac	9	Occidental Petroleum	143	VimpelCom	175
British American Tobacco	55	Freeport-McMoRan	142	ONGC	222	Vinci	174
BT	154	Fresenius Medical Care	247	Ontario	196	Vitol	107
Burger King	149	GDF Suez	94	Oracle	43	Vodafone	112
CADES	37	GE	48	Origin Energy	199	Volvo	150
Caliber Funding	195	General Motors	24	PDVSA	226	Walgreens Boots Alliance	72
Cargill	236	Glencore	34	Pemex	33	Wal-Mart	56
Carrefour	163	Goldman Sachs	22	Pepsi	134	Wells Fargo	21
Caterpillar	58	GTECH	140	Perrigo	249	Westfield	16
CBA	52	Halliburton	173	Petronas	201	Westpac Banking	98
CCRE	100	Hess	240	PetSmart	169	Williams	148
CBS	185	Hesse	137	Philip Morris	212	World Bank	13
CDP	215	Hillshire Brands	139	Porsche	28	Yalong River Hydropower Dev	176
Charter Communications	242	Honda	67	Portugal	51	ZF Friedrichshafen	36
ChevronTexaco	116	HSBC	35	Prudential Financial	220	Zimmer Holdings	46
China Minmetals	204	Hutchison Whampoa	162	Publicis	221		
Citigroup	20	Hyundai Motor	179	Quebec	223		



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