



EUROBONDS EMISSION SYSTEM FOR ATTRACTING FOREIGN INVESTMENT

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Abstract

Eurobonds are the new revolution in the development of the global stock market. As a relatively new tool for raising funds, Eurobonds allowed the economies of the countries to further increase the investment cash flows. But Eurobonds are not only important for the state as a whole, but for each individual investor. This article discusses the need for issuing Eurobonds, the terms of issuing Eurobonds, the procedure for issuing and participants in the process of issuing these securities. The article, also analyzed the results of the issue of Eurobonds in Uzbekistan followed by the forecasts of the process of redemption of Eurobonds.

Keywords: Eurobonds, euro notes, benchmark, lead manager, credit rating, underwriters, corporate structures, financial market, tranche, repurchase

INTRODUCTION

Not so long ago, financial instruments such as Eurobonds appeared on the government securities market, the volume of transactions on which, in recent years, has been constantly increasing. This fact is not surprising, since large enterprises began to show considerable interest in the Eurobond market, as one of the possible factors for attracting capital. Although Eurobonds are usually listed on either the London or Luxembourg stock exchanges, they are usually traded on the OTC market.

Today, on the national securities market, the necessary prerequisites are being created for the formation of the international sector, where securities of Uzbek and foreign issuers denominated in foreign currency could circulate. Admission to circulation on the domestic



market of Eurobonds will allow attracting new and promising investors, and first of all: mutual investment funds, pension funds, insurance companies, etc. Domestic investors should undoubtedly begin to show even greater interest in these debt obligations, which will diversify portfolios, as well as receive a stable income regardless of inflation.

The prospects for corporate issuers' Eurobonds ratings are largely dependent on changes in the country's sovereign rating, which may increase if the government has a tight budget and debt policy, an improvement in the state debt situation, the creation of a stabilization fund, and a decrease in political risks.

EUROBONDS

A bond that is issued in a currency that is foreign to the issuer and placed using an international syndicate of underwriters among foreign investors for whom this currency is also foreign. You must immediately make a reservation that the name should not be misleading. Eurobonds do not imply only securities denominated in euros. On the contrary, it is a global market, covering almost the entire economic world. The name leads the continuation of traditions, according to which, the first Eurobonds appeared in Europe. And there are now located the main infrastructure elements.

In other words, a Eurobond is a long-term coupon bond issued in a different currency than the currency of the country of the issuer. A Eurobond contains data on the amount of debt, the procedure for obtaining interest, and also maturity dates. As a rule, issues of guaranteeing, issuing and placing Eurobonds are the prerogative of the international banking syndicate. A feature of Eurobonds is that they are placed simultaneously on the markets of several countries, and interest on them is paid without tax benefits. These international debt obligations are issued by borrowers, among which are international organizations, governments, local authorities, large corporations interested in obtaining funds for the long term (from 1 year to 40 years).

Eurobonds are issued both with a fixed and a floating interest rate. They have the following characteristics:

1. these are bearer securities;
2. are issued, for the most part, for a period of 1 to 40 years (most often 3 to 30 years);
3. they can be placed simultaneously on the markets of several countries;
4. the loan currency for both the issuer and investors is foreign;
5. placement and provision is carried out, as a rule, by an emission syndicate, represented by banks, investment companies, brokerage houses of several countries;
6. face value is expressed in dollar terms;
7. unlike ordinary bonds, interest on coupons is paid to the holder in full without tax deduction.

The Directive of the Commission of the European Communities of March 17, 1989, regulating the procedure for offering new issues on the European market, contains an official definition of Euro-paper. In accordance with this Directive, Eurobonds are tradable securities with the following characteristics, among which are:

1. Eurobonds are underwritten, placed through a syndicate, in which at least two participants are registered in different states;
2. The offer has significant volumes in one or more states, with the exception of the country of registration of the issuer;
3. Can be initially acquired only through the intermediary of a credit institution or other financial institution.

Underwriter - a person who has assumed the obligation to place securities at the expense and on behalf of the issuer, on behalf of the issuer or on his own behalf.

Professional market participants are called dealers. Dealers are banks and securities companies, regulated by relevant national laws. According to the rule of the market, the lead manager of a particular issue is also his market maker, i.e. he is engaged in supporting an active secondary market by buying bonds with excess supply and selling them with increased demand. Since Eurobonds are traded on the OTC market, there is no fixed time for this market to operate. Nevertheless, according to the rules of ICMA (bond market regulator), dealers are required to trade at least during the allotted hours. The minimum lot when trading between ICMA members is set differentially for various instruments. The most common is 100 bonds (or \$ 100,000 at face value). A typical spread on bonds with a fixed interest rate is 0.5%.

Settlement (execution - settlement) of a transaction from mid-1995 is usually carried out on the third calendar day after the conclusion of the transaction (T + 3), regardless of any holidays. However, after agreement between the buyer and seller, it is possible to establish any settlement day. The quotation of bonds is given on a net basis, i.e. does not include accrued interest. A year is considered equal to 360 days, a month - 30.

The benchmark for the US dollar Eurobonds market is the yield on US Treasury bonds (ten-year T-notes), and in Euro, the yield on German long-term bonds bonds. However, the pricing of these bonds is based on swaps in US dollars or euros. In the process of placing Eurobonds, three main dates can be distinguished (Fig. 1).

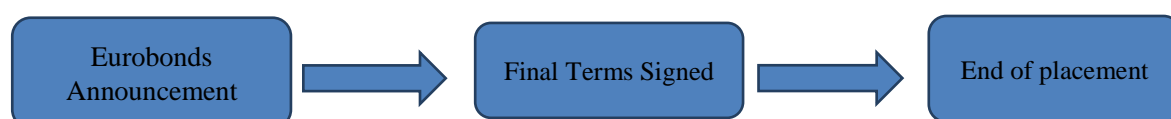


Figure 1. The algorithm for organizing and placing Eurobonds

The organization and placement of Eurobonds is as follows. An important point is the preparatory period, when an international auditor company is selected (which allows to reduce the cost of borrowing in the European market) and the issuer receives an international credit rating (without it, entry into the Eurobond market is impossible). In addition, they pay attention to the status of a law firm - consultant (prepares an issue prospectus and all legally necessary documents for issuing Eurobonds) and the selection of highly qualified organizers dealing with the terms of issue of these financial instruments. Lead is the manager of a large investment bank, organizing the issue of Eurobonds and determining the conditions of the loan. He is the main organizer of the loan.

The largest lead managers in the Eurobonds market are JP Morgan, Citi Bank, Bank of America Merrill Lynch, Deutsche Bank AG, Barclays, Goldman Sachs & Co, HSBC Bank PLC, Morgan Stanley, UBS, Credit Suisse.

Placement of Eurobonds is carried out either by open subscription through an syndicate of underwriters among investors in several countries, or through private placement by several banks (without listing on the stock exchange), and such Eurobonds are acquired, as a rule, by a limited number of institutional investors. The conditions of the issue are agreed in advance and financial, payment and listing agents are appointed. The listing procedure, although using a simplified system, takes place on the world's leading stock exchanges. This is a very important point, since in some EU countries, if securities are not listed, institutional investors (in particular, pension funds and insurance companies) are prohibited from purchasing bonds. The success of the issue largely depends on the success of the advertising campaign, after which the lead manager forms a group of banks to determine the size of the issue, its organization and conduct. An underwriting syndicate is formed (if one of its members fails to fulfill its obligation, the remaining participants assume its burden in proportion to their shares).

After the issues of creating a syndicate of managers, underwriters and other participants in the issue of Eurobonds have been resolved, such a release is publicly announced. At the end of the subscription period, syndicate members are pre-allocated for these financial instruments. During this period, an unrealized portion of Eurobonds may be returned by a member of the sale group. As for the underwriters, they will be obliged to redeem the remaining volume of unsold Eurobonds at a pre-set price. At the end of the subscription period, the final price is set and the sale of Eurobonds is announced. After the deadline, it is reported whether the entire emission quota has been implemented. On the day the issue is completed, its participants transfer the corresponding amounts for the Eurobonds they purchased to a special account in the bank, documents on title to the Eurobonds are issued to the final investors, and the issuer receives share premium. In addition, it is announced that the syndicate of managers is completing its

activities. In conclusion, the press announces the end of the placement. For investors, it is important that issuers of Eurobonds must receive at least two international ratings and be listed on the world stock exchange. In addition, the covenant system is in place (the borrower agrees to perform or refrain from performing certain actions, and in case of violation of the terms of the relevant agreement, the borrower is required to repay early), which provides for the maintenance of certain indicators of the issuer (for example, the amount of capital and its sufficiency ratio, assets pledged) at the appropriate level. Typically, covenants also include cross-default conditions, when non-fulfillment of one debt obligation entails a general default.

EUROBONDS IN UZBEKISTAN

In modern conditions, the standard for placement has become the so-called “purchased transaction”. With this placement, the lead manager buys all the securities from the issuer on the previously established conditions (volume, coupon rate, placement price) before the announcement of the issue.

JSCB Uzpromstroybank of the Republic of Uzbekistan prepared for the issue of corporate Eurobonds based on the recommendations of such international investment banks (financial advisers) as JP Morgan, Citigroup, Commerzbank, Raiffeisen Bank. On November 18-22, 2019, meetings and negotiations were held with more than 60 investors in Zurich, Frankfurt and London. During these discussions, the current banking reforms in the country were discussed, including the government’s strategy to capitalize large commercial banks, the prospects for their privatization, credit policy, further expected changes in assets, including problematic ones, as well as the dynamics of the sphere's development. It should be noted that large investors took into account the process of bank transformation (including preparations for privatization) with the participation of the International Finance Corporation to improve corporate governance. Due to the fact that its business model is aimed at further commercialization and gradual privatization, they consider the battery to be a commercial, not a state bank.

On November 25, 2019, following the advice of financial advisers and the recommendations of investors, the bank's initial yield on 5-year international bonds was set at 6.50%, and their placement was announced at 08:23 London time. The volume of orders by 10:00 in the morning reached \$ 300 million (fully covering the issue), and by 12:10 - \$ 800 million (covering the issue 2.5 times).

At 12:25, bond yields were reduced by 0.125%, and a new rate was announced at 6.375%. Investors were satisfied with this strategy, and by 13:05 the volume of orders increased to \$ 1 billion, and by 14:00 - to \$ 1.2 billion (with a 4-fold coverage of the issue). Due to such

high demand, a sufficient profitability of the transaction was ensured, which was closed at 17:00 London time with a coupon rate of 5.75%.

CONCLUSION

Successful placement of bonds indicates a positive reaction of international investors to reforms in our republic, in particular in the banking system. In addition, the first corporate Eurobonds in domestic history issued by Uzpromstroybank will serve as a guide for other commercial banks and enterprises.

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