International Capital Market Association
Speeches

Development of Bond Markets

David Walker

Chairman, Barclays plc

I. Preamble

There was a great English Law Lord, Cyril Radcliffe, who was at a dinner as a guest of the New York Bar Association, and at about this time [10pm] the principal speaker stood up and spoke for an hour. I am not going to speak for an hour. After this session, this English Law Lord, in immense frustration and annoyance said to his host, 'He spoke for too long.. He said it all in the first sentence. He was wrong'. I do not want to fall into that trap.

II. Market Development

I will make just a few observations. Firstly, as we see very well in the markets described to us, markets develop where there is unsatisfied demand and a potential supply of funds. Both conditions were amply satisfied in the 60s and 70s. There was large infrastructure and project demand because we were still in a post-reconstruction phase in many countries. Many of you will not remember this, but Triffin, a great economist in the United States in the 50s, wrote about a world dollar shortage. This had become totally redundant by the 1960s and 1970s, when the world had a huge dollar surplus.

The US capital market then really did not have a passport. It was for the Europeans to develop an offshore dollar market, greatly aided – as previous speakers have said – by the Interest Equalisation Tax and Regulation Q. But while US regulation has been unintentionally massively supportive, the credit for seizing the opportunity goes to those with enterprise and initiative - of whom there are many in this room tonight - in identifying the challenge and running with it. This was an evolutionary process. Much went on subsequently; it was not all done on day one with those first issues.

III. Looking ahead

But having enjoyed this nostalgia for past achievement it seems to me now timely to look ahead. Despite the huge significance of the Eurobond market in the way Gene Rotberg in particular described, Europe does not have a domestic bond market to match that of the United States. Tonight is not an evening for statistics but let me just say that the US bond market meets 83% of the funding needs of American corporates. Only 17% of those funding needs are met by the banks.

The position in Europe is approximately the opposite. It is an 80:20 position. My suggestion to you looking forward is that it is highly desirable for Europe to move in the US direction as a public policy objective, in particular now, as capital requirements are applying much more toughly to banks like mine, under Basel III.

IV. Objective

So the baton needs to be handed on from this Golden Jubilee generation to the next generation of capital market entrepreneurs. I acknowledge that, by virtue of regulation and the complexity of international business, what needs to be done to create a European bond market is much more complicated now than it was when the Eurobond market, the offshore market, was created in the 60s and 70s. I suggest the aim should be a European, high-yield market to rival that in the US in relative terms, over the next five to ten years.

V. Challenges

Are the successors to the Eurobond pioneers of 50 years ago up for the challenge? I acknowledge that some banks controlling origination may be reluctant to disintermediate themselves and that corporates will need to be readier to face the greater openness and disclosure associated with the ratings process, which is essential to access a serious bond market. But in the final analysis, nothing that I am proposing is any less achievable than the first Eurobond issues of half a century ago, or perhaps as Rupert would tell us, 150 years ago. The requisites are determination, skill and patience and I hope that a new generation will deploy these effectively to the great advantage of our Continent in the increasingly tough competition with the rest of the world.