

International Capital Market Association Speeches

The Early Eurobond Market

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I. Preamble

Signor Presidente, Signore, Signori, as the only surviving member of the Warburgs team that worked on the Autostrade Eurobond issue in May 1963, albeit the most junior one, I am indeed honoured to have been asked to address such a distinguished audience here this evening to celebrate the anniversary of this issue.

First and foremost, I would like to honour the memory of that great pioneer, Sir Siegmund Warburg and all those of you here who carried forward the Autostrade tradition over the last half century.

II. Autostrade Issue

1. Why Autostrade?

The first question tonight must be: why Autostrade? The answer is that it was never meant to be Autostrade. When Siegmund Warburg asked his friend, Guido Carli, the Governor of the Bank of Italy, to produce an Italian borrower to pioneer this new form of fundraising, Carli suggested the name of Finsider, the Italian steel company. Fortunately, he soon discovered that this would not work, as Finsider could not pay interest gross under its statutes. This, of course, was an essential feature to attract all those Belgian dentists and others who were the target buyers of the bonds, and who were not over-inclined to pay tax on interest received. Instead, Carli put forward the name Autostrade, which could pay interest gross.

2. Autostrade Team

Thus was born the Autostrade issue, for the huge amount of \$15 million: 5 ½% guaranteed bonds 1972/78 under the management of Warburgs, Banque de Bruxelles, Deutsche Bank and Rotterdamsche Bank, and quoted on the Luxembourg stock exchange.

It was launched into the stratosphere in 1963, under the unconditional guarantee of IRI, the Principal Industrial Financial Holding Corporation owned by the Italian State, although the funds eventually did go to Finsider. The pioneering solicitors in London were Allen & Overy, in the persons of the invaluable Geoffrey Sammons and Robin Broadley. The brokers were Messels and Strauss Turnbull, where Julius Strauss probably knew more about Eurobonds than anybody else in the market. The accountants were Brown, Fleming and Murray and the rest is history.

III. Early Innovation

1. Floating Rate Notes

I have been asked to say a few words about an early innovation in the Eurobond market, which was a first Floating Rate Note issue, launched in 1970 for ENEL, the Italian electricity authority, where I was, again, the most junior member of the Warburgs team. This new invention involved varying the interest rate on the loan from time to time in relation to the movement of interest rates in general on the London interbank market, namely LIBOR. It was not rigged in those days.

2. Progenitors

It was extremely ingenious, and, like most good ideas, admirably simple. There was considerable competition to claim the new infant's paternity, but personally I have no doubt that the progenitor was Van Galbraith, an American investment banker who had worked with Morgan Guaranty before moving to Bankers Trust and later becoming a somewhat controversial US ambassador to France. If legend is to be believed, Van thought up the idea in his bathtub in Pelham Crescent. Then, accompanied by his colleague, Dimitri de Gunzberg, who had earlier worked at Warburgs and who was a distant cousin of Siegmund, he came round to discuss his brainchild with Siegmund. The latter immediately saw its significance, especially as interest rates were very high then and borrowers were reluctant to incur burdensome fixed-rate obligations, whereas a floating rate would give them maximum flexibility.

3. Collaborators

It was agreed that Warburgs would work together with Bankers Trust on the first issue in this new form, adding White Weld as a third partner, with Bob Genillard, Stani Yassukovich and John Stancliffe making, as always, important contributions. Siegmund again consulted Carli who suggested ENEL as the borrower. The issue was to be for \$125 million and would have a maturity of seven years with the interest rate being fixed every six months at three quarters of 1% over LIBOR.

4. Prestige

Siegmund decided that as Warburgs had produced the borrower, we should lead the issue, which was quite unfair, as Van had produced the idea. Eventually, Warburgs' name appeared first in the prospectus and in the tombstones in Europe, while Bankers Trust prestigiously and, quite rightly, ran the books and appeared first in the US tombstones. Such were the weighty matters on which merchant bankers spent their time.

IV. ENEL Issue

Generally speaking, there was fierce competition amongst Deutsche Bank, White Weld and Warburgs to be at the head of the Eurobond league tables until the Japanese securities houses later began to compete for that position. There was some dispute as to whether or not there was one earlier FRN issue for the Dreyfus Offshore Trust, but ENEL was generally regarded in the market as being the initiator.

In preparing the ENEL issue, there was a meeting one memorable Sunday at Warburgs, attended by countless British, American and Italian bankers and lawyers, with Siegmund in attendance. The problem under discussion was that the loan had to be an obligation under English law in order to avoid some penal stamp duty. But if it had been an *obbligazione* under Italian law it would incur a considerable, and equally nasty, Italian stamp duty. This was a conundrum which taxed the most ingenious brains and much firepower was brought to bear on it.

We battled all day and Siegmund became ever more furious at what he regarded as bureaucratic incompetence, for which, for some reason, he held me responsible. At a late hour, the meeting disintegrated, the problem unresolved. On the morrow we repaired to Rome, Siegmund by now not far from apoplexy. At our first meeting he seized our Italian counsel by the lapels of his coat and shook him until the monocle, which he sported regularly in emulation of his concept of an English gentleman, fell to the ground. Eventually, Siegmund and Carli concocted some Jesuitical-Talmudic potion, which dissolved the Gordian knot and the ENEL issue was launched into the stratosphere to join Autostrade.

V. Closing Remarks

If I may finish on a lighter note, I will read a brief and somewhat waspish article written in the *International Financial Review*, shortly after the 30th Anniversary Autostrade dinner, which took place at Brooks's in 1993.

“A venerable family retainer at Brooks's club in London told us of an extraordinary dinner party which took place last Friday. When we heard the names on the guest list, we almost called Vera Lynn to sing a few verses of *We'll Meet Again*. Totally unconfirmed rumours say that the dinner may have been sponsored by Zimmer Frames UK and that a team of nurses stood by in case any of the guests succumbed to the effects of old age. What is the common denominator among this hugely wealthy but ill-assorted group? We would suggest that a couple of them are the only non-SG. Warburgs alumni out of this euro class of 1964. One still would not know a Eurobond if it came and nipped him in the Brazil nuts, and wasn't another vaguely associated with Warburgs' dog deal for Famous Artists' Schools – the first Eurobond issue to default? Was not yet another heavily involved in Sodic, the not so cuddly Swiss house that gave us more defaults than Joe DiMaggio hit home runs? Fortunately, all these bus pass holders are now beyond the age of unfair criticism.”

Happily, I do not observe any nurses present tonight.