

International Capital Market Association Speeches

150 Years of the Eurobond

Rupert Hambro

Chairman, J O Hambro Ltd

I. Introduction

I would like to try to prove to you that tonight does not celebrate 50 years of the Eurobond market, but actually 150 years of the first Eurobond issue. I will tell you what the first Eurobond issue was and where it came from.

II. Funding for War

In 1861, 11 of the southern states of the United States succeeded and became known as the Confederate States. By 1863 they were at war with the North. As part of the poorest part of the US they quickly ran out of resources and the war started to be too much for them. They managed to get across the Atlantic, and they got to France, where they met a banker by the name of Mr Erlanger, and negotiated with him the fact that their requirement was to complete the war, and to do so they needed resources.

III. Eurobond Pioneers

So, in 1863 Erlanger issued a bond of £3 million, the equivalent today of £129 million – the confederate bond – redeemable over 20 years. The bonds were made available to Erlanger at 77%. They then sold them on at 90%. As well as pocketing the difference they received, they also charged a commission of 5% on each sale and received 1% of every interest payment. This interest payment was 7% and was paid half yearly.

The bonds did have one further coupon. They could be redeemed for cotton at the rate of sixpence per pound of cotton. Erlangers did not feel that they were in a position to stand up for £3 million – or £129 million – so they went to their friends at Rothschild and Rothschild immediately turned them down. They then went to Barings, but they too turned them down and refused to join the consortium. So what did Mr Erlanger do? He found a friend in London and that friend was called Mr Schroder. Mr Schroder was the one who joined Erlanger to issue these bonds.

IV. Winners and Losers

As the war got worse, the bonds traded lower and lower, and after the defeat of the South in 1865, the victors – being the North – immediately stopped all payments and passed an amendment to the constitution stating that any debts from the South or any other obligations or claims could be held

illegal and void. The only winners, obviously, from this, were the South. The investors suffered heavy losses and only four of the 40 coupons were ever clipped. The only winners were the Confederates, who even after all the deductions were able to sustain the war effort for a further two years. Surely, no one can argue that that was not a Eurobond.

Mr Chairman, may I suggest that perhaps tonight we do not celebrate 50 years of Eurobonds, but 150 years?