

Mighty Eurobond market celebrates 50th anniversary

"What hath God wrought?" asked Samuel Morse in the first ever telegram in 1844. A similar wonder may have infused the bankers, investors and officials who worked on the first ever Eurobond, 50 years ago. Their creation has changed the world just as profoundly. **Jo Richards** and **Toby Fildes** report on the International Capital Market Association's remarkable dinner to celebrate that anniversary this week.

Felice anniversario, Eurobonds. It is doubtful that those involved in launching the \$15m bond for Italy's Autostrade half a century ago really knew what they were creating.

They knew what they were doing, of course: they could see that the pile of Eurodollars sitting outside the US, left idle for tax reasons, was ripe for recycling. And yes, they grabbed with both hands the opportunity that President Kennedy's Interest Equalization Tax presented them just 17 days after the Autostrade deal was executed.

But not even the great Sir Siegmund Warburg, manager of the Autostrade bond, could have dreamt that this little deal could be the beginning of an all-powerful securities market that in 2012 would produce \$4tr of issuance. But that is precisely what has happened.

It was for good reason, then, that the Eurobond market gathered on Monday night at the Savoy Hotel in London to celebrate its 50th anniversary.

Organised and hosted by the International Capital Market Association, the gala dinner was attended by countless A-list Euromarketeers, past and present.

Fine speeches were made during the dinner by market pioneers Peter Spira, Stanley Ross, Eugene Rotberg, Rupert Hambro, Hans-Joerg Rudloff, Stanislas Yassukovich and Sir David Walker.

First hand account

The most poignant address of the evening was made by Spira, the only surviving member of the SG Warburg team that put together the Autostrade deal. He reminded the audience of just how the market was born and why the honour of being the first issuer fell to Autostrade.

"The answer is that it was never meant to be Autostrade," he told the audience. "What happened was that, when Siegmund Warburg asked his friend, Guido Carli, the governor of the Banca d'Italia, to produce an Italian borrower to pioneer this new form of fundraising, Carli suggested the name of Finsider, the Italian steel company. Fortunately we soon discovered that this would not work as Finsider could not, under its statutes, pay interest gross.

"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."

Carli, instead, suggested Autostrade, which could pay interest gross. "Thus was born the Autostrade issue, for the huge amount of \$15m, 5.5% Guaranteed Bonds 1972/78 under the management of SG Warburg, the Banque de Bruxelles, Deutsche Bank and Rotterdamsche Bank and quoted on the Luxembourg Stock



The Euromarket's A-list: (back row L to R): Rotberg, Ross, Rudloff, Walker, (front row L to R): Hambro, Spira, Yassukovich

Exchange."

"The bond was launched into the stratosphere," said Spira, "in May 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. And the rest is history."

The most thought-provoking speech was by Eugene Rotberg, treasurer at the World Bank throughout the 1970s and much of the 1980s.

He reminded the audience that, while the market had proved itself exceptionally innovative, and able to deal with almost every type of risk it had met in its 50 year life, it had also made mistakes.

And in trying to hide those mistakes it had created the techniques and systems that fuelled the credit crisis.

"It was not all so benign," he said. "We made mistakes. How did we hide them?"

The answer: "Off balance sheet trades or don't mark to market. That led to a sense of unreality until recently when auditors, partly from fear of being accomplices, began to mark to market — with a vengeance — valuing assets well below their underlying cashflows."

Then, how to avoid reporting losses? "Answer: For banks, keep lending to a non-paying borrower so it could pay us interest. A rolling loan gathers no loss."

How to lend without fear of the capacity of borrowers to repay? "Securitize. Package the asset. Get rid of it fast. Not to worry about prudential lending."

Hedge funds were formed to avoid disclosure completely, leverage to increase return on capital and the hiring of financial wizards to avoid regulation. Glass-Steagall was repealed, and banks developed an "asymmetrical compensation system which rewarded success but hardly penalised failure."

Frontier spirit

The Wild West atmosphere of the market in

the 1960s was epitomised by Stanley Ross, inventor of the grey market, a founding member of the Association of International Bond Dealers and author of the newsletter *The Week in Eurobonds*, which provided a voice for the Euromarket in the '70s and '80s.

He was on typically swash-buckling form, reminiscent of when he wore a monocle and mutton-chop sideburns back in the day, reminding those who cared to listen that he was still due countless boxes of champagne from those who owed their luck and careers to him.

Troubled by virtually no regulation, these bond market pioneers felt the world was their oyster. It was a fun place to be, it made you rich and there was a sense of adventure as you worked out ways to avoid the regulations that governments and officials tried to impose.

The famous Belgian dentist grabbed at the opportunity to buy bonds when they were issued in bearer form. What better way to hide your wealth? You just had to get your coupons clipped, collect your cash, and keep your bonds in the safe. It was all bound to spiral out of control.

But what came over very clearly was the pride these pioneers have in what they achieved. There was no self-congratulation, just an acknowledgement of the remarkable market they have created.

How many of today's marketeers will have that in 30 or even 50 years' time? Not many, perhaps, in part because much of the innovation has been done and there is so much more regulation.

Also, are there any genuine pioneers and entrepreneurs of the same calibre left today? Or has the cutting edge passed to the unshaven evangelists of Bitcoin — the new unregulated, tax-free, cross-border market.

Rotberg believes the Euromarket still retains its essential character, since he told the audience that some of the basic characteristics of his profession still hold true today.

"We respond to peer pressure. We want to patent that magic zero coupon bond with a perpetual maturity so we need pay neither interest nor principal. We want to capture rewards quickly so we can look good if we can't be good. We deny blame or responsibility. We never measure or report opportunities lost. We rely on sympathetic accounting conventions. We design performance measures to cover up error. They are called benchmarks.

"We make decisions based on: will we be found out? Discovered? Identified as the wrongdoer? Will we be hassled by peers, superiors, the bureaucracy? Do we really want to have to explain this stuff to someone who spent his or her life in sales or marketing? Leverage is fun. That's who we were. That is who we are."