CURRENT DEVELOPMENTS IN EUROMARKETS

QUESTIONS AND ANSWERS

Question - Paul Bear (Chairman):

Well perhaps John if there no questions for the moment I might just exercise a chairman's prerogative by asking you to expand on one matter which you touched on and that is the presence of regulation. The Companies Act and the Prevention of Fraud Investments Act have been to some extent augmented in recent times by the Financial Services Act, and I wondered if you could give us an insight into how they are affecting the market as such.

Response - John Edwards (Linklaters & Paines):

If you would all like to make arrangements to stay here until the week after next, I imagine we might just scrape the surface! Seriously, I have to be a bit general because that is a huge topic. Nobody anticipated the machine that has been erected by virtue of the FSA. It was launched as a result of a compromise solution between the government and the Stock Exchange back in about 1984 when fixed commissions were abolished and dual capacity was introduced, as a trade-off for a withdrawal of a referral to the Monopolies and Mergers Commission by the government in relation to past monopolistic or cartel-like practices. It was only as the draftsman of the FSA began to get going on the Act, that a variety of other elements emerged, notably the ability for brokers to be purchased by both UK and foreign banks.

The Financial Services Act contains a huge volume of highly dense, almost impenetrable, legislation and subordinate legislation. The legislation addresses such matters as who may sell investment products, in other words authorisation - which itself is a huge area. Then it addresses the question as to what is an investment product, and that again is a matter of some considerable complexity. Then how do you become authorised? Do you have to make an individual application or do you join one of the self-regulatory organisations?

As you rightly point out Paul, the FSA goes a bit further, in that it seeks to regulate transactions. This is where it overlaps with the Companies Act 1985 and the Prevention of Fraud Investments Act of 1958 which hitherto were the regimes under which we operated both in relation to domestic offers, ie. offers

for sale to the public in the United Kingdom by UK corporations on the one hand, and foreign companies offering securities through London into the Euromarkets on the other hand.

The global capital markets are basically professionals' markets. The old definition of professionals is still in the Companies Acts, and concerns itself with persons whose ordinary business it is to buy and sell securities.

The Financial Services Act has been in effect for some time, but that part of it, Part V, which relates to what are referred to as "unlisted securities", ie. those not listed in London, is still not in effect. When it comes into effect, it will come into effect on the basis of a provision in the Act, which seeks to re-define what professionals are - not by reference to what their ordinary business is, namely to buy and sell securities, but by reference to their ability to assess risk.

Question - David Allan (University of Melbourne):

Could I press John Edwards slightly upon his prediction that there may be a shift of onuses in the Euromarkets from London to Tokyo because it does seem to me there are a number of factors that would militate against that shift. I think, for example, that the smaller Japanese houses at the moment presumably rely fairly heavily on professionals that are available in London or are London based, there are traditional problems of access to the Japanese economy, the language, the communications and above all else the very high costs. I would like to ask him whether he thinks those are serious impediments or whether they are going to come.

Response - John Edwards (Linklaters & Paines):

My own belief is that the London Euromarket will not disappear. It is merely that I think that there is such a strong will in Japan to correct the imbalance that they have felt existed for so long, that I perceive that will to be difficult to counter. I agree with you, cost is a feature and one of the reasons I mentioned that there were blocks in the way of the repatriation of the market to Tokyo was the question of the Commission Bank cost, which currently runs at 3 per cent per annum of the issue. We may well find that a regional capital market will develop whereby for example Australian investors will be quite happy to purchase bond warrant issues in Japan denominated in Yen. They will be done as domestic issues except that they will be sold internationally.

Comment - David Allan (University of Melbourne):

Thank you. That is very helpful. I think the Japanese themselves have certain advance work to do to put their own house in order.

Response - John Edwards (Linklaters & Paines):

No question about it.

Question - Roger Drummond (Bell Gully Buddle Weir, Wellington):

I ask John and would be grateful for his comments on new country risk. Firstly, what are banks doing in London as far as overcoming that problem? And secondly, briefly, I would be grateful for a comment on the Christmas issue regarding defaults by certain third world countries.

Response - John Edwards (Linklaters & Paines):

Again, a subject which would keep us here until the end of next week. I think in both cases all I can say is to my knowledge that banks are exercising greater prudential controls both over their existing exposure and of course much more particularly over anything new which comes their way. I think banks have accepted the inevitable in England as they have anywhere else in the world that the question of rescheduling requires creative thinking nad assistance to LDC nations.

Brady said that an important element of US proposals to accelerate the voluntary reduction of debt burdens in developing countries is the call for commercial banks to agree to waive legal obstacles in debt agreements. He specified four of them. The four restrictions which obstruct accelerated debt reduction are: sharing, negative pledge, pari passu and mandatory pre-payment clauses. What is actually being called for is for bankers to adopt a creative, which effectively means a conciliatory, approach.

Secondly, I would say that insofar as new country risk is concerned the banks are again taking a more creative approach which effectively means that they are going to look for application of use of proceeds to specific projects.

Comment - Paul Bear:

Ladies and gentlemen, I do not think we have any more time for questions. We are well into the lunch hour now and as that is the case I will content myself with a vote of thanks on your behalf which is a bare vote at this stage in saying thank you very much to John Edwards and to Chris de Heron for a very well presented, informative and to some extent crystal ball gazing session and we will wait with interest to see what happens over the next couple of years. Would you all join with me in thanking our speakers.