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Issuing International Bonds

A Guidance Note

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Abstract

Financial conditions in recent years have provided developing countries with unprecedented opportunities to tap international bond markets, increasing access to commercial debt financing. On that background, developing countries are broadening the range of debt instruments employed in implementing debt management strategies, and this has changed the risk profile of their public debt portfolios. The target audience of this Discussion Paper is the sovereign debt manager, with a special focus on first time/infrequent issuer in Low Income Developing Countries. The Guidance Note does not discuss whether countries should issue international bonds or not, but, rather, focus on the process of issuing such instruments, given the lack of objective and independent guidance available for issuers. The note outlines a step-by-step process and provides practical advice.

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Abstract ... **3**
Introduction ... **5**
Setting the Scene ... 5
Objectives and Scope ... 7
The Structure of Debt Capital Markets ... 10
Step 1: Pre-Phase ... **11**
Establishing a Task-Force ... 11
Detailed Preparation ... 13
Bond Structure ... 13
Step 2: Selecting Advisors & Executors ... **14**
Rating Advisor ... 15
Independent Advisors ... 15
Lead-Managers ... 16
Legal Counsel ... 17
The Selection Process: Some Considerations ... 17
Creating a Team-Approach ... 20
Costs of Advisors and Other Expenses ... 20
Fees for Joint Lead-Managers ... 20
Rating Costs ... 21
Legal Expenses ... 21
Other Expenses ... 21
Step 3: Documentation ... **23**
Step 4: Investor Communication and Relations ... **25**
Step 5: Execution ... **26**
Step 6: The After-Issuance Phase ... **30**
Hedging with Cross-Currency Swaps ... 32
Conclusion ... **31**
Timeline for an International Bond Issuance ... 33
Annex 1: Pricing of a Bond ... **34**
Price Guidance ... 34
Coupons, Yields and Spreads ... 35
Pricing Credit Risk ... 37
Annex II: Cost of Carry ... **38**
Annex III: Repayment at Maturity ... **40**
Annex IV: Official documentation ... **43**
Basic Features of a Eurobond ... 43
The Legal Framework ... 43
Liability ... 45
Other Issuance Documentation ... 46
Glossary: Agents in the International Capital Markets ... 47
The Stock Exchange is the listing venue for the Eurobonds. ... 47
Glossary: Documentation Jargon ... 48
Annex V: Number of New Issues Per Country Per Year Since 2004 ... **49**

Issuing International Bonds: A Guidance Note[1]

Patrick B.G. van der Wansem, Lars Jessen, Diego Rivetti

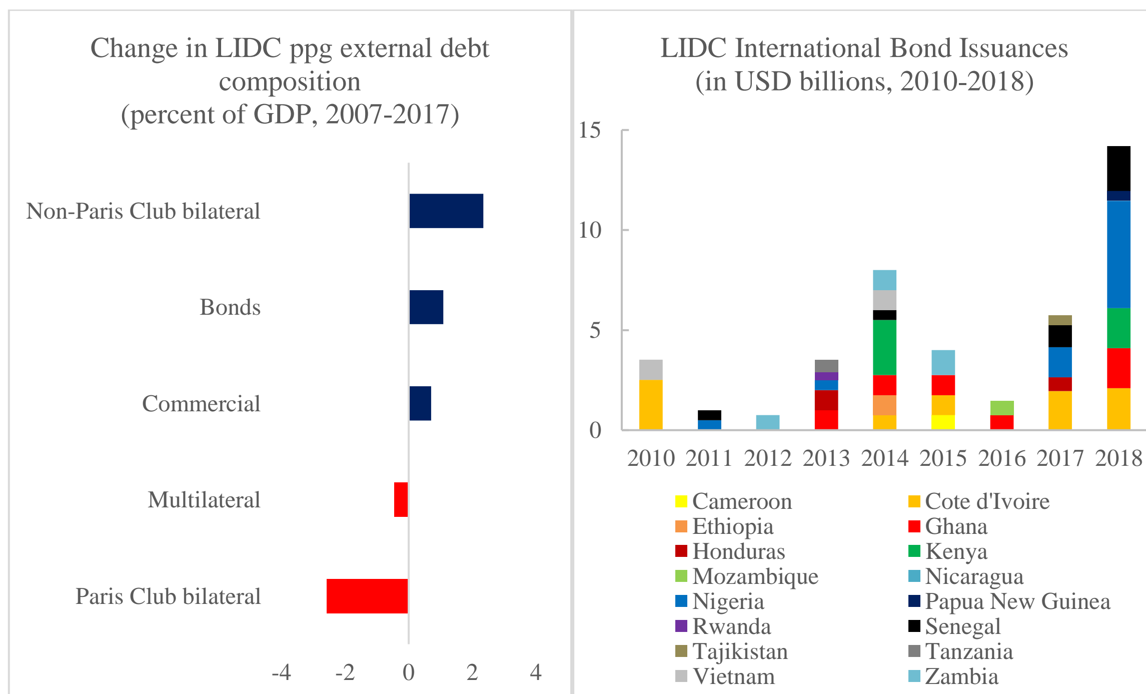
Introduction

Setting the Scene

Many developing countries are broadening the range of debt instruments that they employ. Financial conditions in recent years have provided low income developing countries (LIDCs) with unprecedented opportunities to tap into international bond markets, increasing access to commercial debt financing. It has changed the risk profile of public debt portfolios.

In particular, the last ten years have witnessed an increase in Eurobond issues by LIDCs. This has been supported by prolonged low global interest rates and portfolio diversification strategies in mature markets, with investors looking for additional yield. Looking to the period

Figure 1: LIDC: Changing debt composition and international bond issuance



Source: World Bank International Debt Statistics and Bloomberg.

[1] This guidance note has been prepared by Patrick B.G. van der Wansem (consultant), Lars Jessen and Diego Rivetti (GMTMD, MTI, World Bank) It has been peer reviewed by Thordur Jonasson (MCM, IMF), and Anderson Silva, Hiroshi Tsubota, and Sebastien Boitreaud (all World Bank). Additional comments were provided by Guilherme Pedras and James Knight, (IMF), and Lea Hakim, Andre Proite and Sebastian Essl (all GMTMD, MTI, World Bank), World Bank. Doerte Doemeland, (Practice Manager, GMTMD, MTI) provided overall guidance. Several banks have been interviewed: Appreciation is expressed to Samad Sirohey and Peter Charles of Citi; Hector Snuggs and Odilbek Isakov of HSBC; Hussain Zaidi of Standard Chartered; and, finally Stefan Weiler and Nick Darrant of JP Morgan. The note has benefited from many conversations with debt managers from issuing countries.

since 2004, close to one hundred developing countries have issued more than 750 international bonds (see Annex V).[2] While there was a dip during the financial crisis of 2007-2009, the average number of issuing countries for the other years has been around 60 per year. The average issue size was around US$ 1 billion, reaching a cumulative funding volume of US$ 760 billion over that period.[3]

Many LIDCs have tapped in Eurobond financing in recent years. As summarized in Table 1 below, the key drivers are centered around the ease at which funds can be raised, the lack of conditionality in their use, and the drive to signal financial strength. The challenges for a LIDC issuing international bonds are the relatively high interest cost compared to concessional financing and, particularly, handling the concentrated principal payments at maturity. In addition, fees add to the direct cost, and cost-of-carry, hedging cost, etc. are examples of indirect costs that should be considered when evaluating the total cost of borrowing but are often not taken into account when the terms are evaluated or reported (Annex II elaborates on the cost-of-carry, which often adds tens of basis points to the funding costs). The refinancing challenges are often ignored at the time of issuance, since refinancing takes place in the distant future.

Still, market access conditions can be highly uncertain. The markets are often volatile: spreads can vary by several hundred basis points in a few months in reaction to local or global events. This can create challenges for issuance of new Eurobonds, as well as for refinancing maturing ones. For example, risk could become acute when the initial wave of Eurobonds reaches maturity, in particular in a situation where global interest rates revert to historical levels, and if coinciding with investors shying away from this market segment. Countries with macroeconomic imbalances will be most affected.

Access to international markets depends on the perceived credit risk, often measured by a country's credit rating. An international rating of B- is generally considered the minimum for issuance in the international capital markets. Investors are driven by yields and, in the current low rate environment, have been accepting more credit risk, pricing in default risks. In addition, many investors actively or passively track market indices, or benchmark their investments against them; if a bond qualifies for inclusion in an index it can therefore generate some 'automatic' demand.

[2] Including Sukuk and guaranteed bonds.

[3] For another overview with detailed country-by-country analysis, see Guscina, Anastasia, Guilherme Pedras, and Gabriel Presciuttini, 2014, "First-Time International Bond Issuance—New Opportunities and Emerging Risks," IMF Working Paper 14/127 (Washington: International Monetary Fund).

Table 1: Pros and Cons of Alternative Funding Sources, From the Issuer's Perspective

<table>
<tr><th>Pros</th><th>Cons</th></tr>
<tr><td colspan="2">(Semi-) Concessional Financing
Maturities 25-40 years; amortizing; interest ¾ - 2½ percent; mostly US$ or Euros</td></tr>
<tr><td>• Long maturities
• Low cost
• Low refinancing risk with gradual redemptions</td><td>• Often project finance
• Additional social or environmental conditions
• Size of financing often limited
• FX risk</td></tr>
<tr><td colspan="2">Domestic Financing
Maturities 3 months – 5 years, occasionally longer</td></tr>
<tr><td>• A domestic bond market ultimately provides a durable source of financing
• Allows smaller sizes and more frequent issuance
• Vehicle for liquidity management and investment
• No FX risk</td><td>• Relatively high interest rates
• Absorption capacity of domestic market often limited
• Large dependency on banks and monetary liquidity if investor diversification is limited
• Short- to medium term maturities if absence of secondary market (i.e. limited exit)
• Risk of crowding out private borrowers
• Refinancing risk</td></tr>
<tr><td colspan="2">International Capital Market Financing (Eurobonds)
Maturities 5 – 15 years, occasionally longer</td></tr>
<tr><td>• Less dependency on limited domestic borrowing sources
• No upfront conditionality
• Signal of "country strength"
• Reduced refinancing risk due to longer maturities
• Large volume possible in one issuance
• Execution in 2-3 months (can be longer for infrequent issuers)
• Interest rate can be lower than domestic rate</td><td>• The discipline that market imposes can be perceived as restrictive
• FX risk, possible downward spiral if debt service weighs on currency
• Refinancing risk: typical bullet structure means a large redemption at one time with uncertain future market access (market sentiment)
• Requires longer-term commitment as additional bonds would need to be issued to cover the repayment of the first one, etc. First-time issuers need to be aware that they will have to continue to provide ongoing information to investors, monitor the markets, etc.
• Fees add to total cost
• Cost of carry for large proceeds</td></tr>
</table>

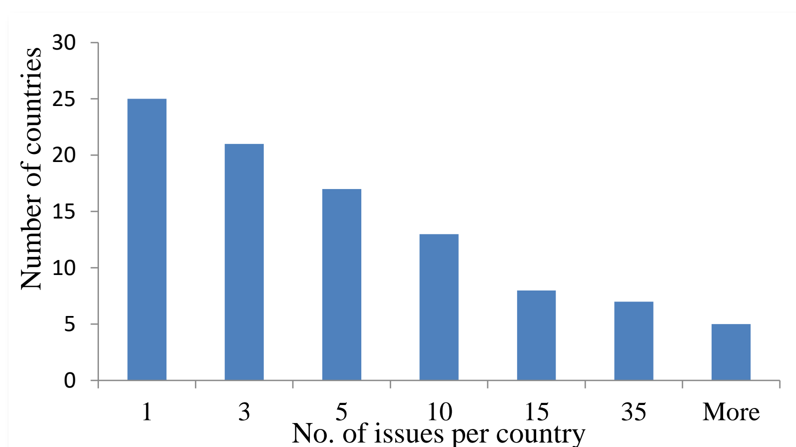
What is a Eurobond?
In this note, the term 'Eurobond' is applied to all international commercial financing through bond issuances. The term Eurobond refers in general to a bond that is listed, trades and settles in the European Union (aside from EU domestic government bonds). For example, it can be listed in Luxemburg and issued under UK law. However, Eurobond does not point to a currency denomination in euros. In fact, the bonds can be denominated in any currency. The term stems from its similarity with what is known as Eurodollars: dollar deposits held at banks outside the US. Eurobonds are, in principle, not allowed to be sold in the US, nor do they settle in US clearing system (the distinction can be grey, see Rule 144A below), even if denominated in US dollars. Formally, there are alternative international bonds, such as 'Global Bonds', but those formats are only addressed in the note where necessary. There is also a syndicated international loan market, which is not discussed further in this note.

Objectives and Scope

The target group for this Guidance Note is the sovereign debt manager, with a special focus on LIDCs. The majority of developing countries have very limited, if any, experience with international capital markets. Since 2004, 25 percent of the LIDC issuers of international bonds have undertaken only one transaction and almost 50 percent have not done more than 3 transactions – see Figure 1 below. Issuing a Eurobond is a strict process with professional market parties and conventions. Experience shows that issuers of international bonds from LIDCs rely on investment banks for advice and guidance through the issuance process.

There is little objective and independent guidance available for issuers, a gap which this note aims to fill. First-time issuers should benefit the most, but the note could be useful for countries that have issued already but are not issuing frequently enough to build and retain internal expertise. The aim is that debt managers become better positioned in their interactions with commercial parties and obtain optimal results.

Figure 2: Issuance Frequency, Emerging Market Sovereigns, 2004-2017



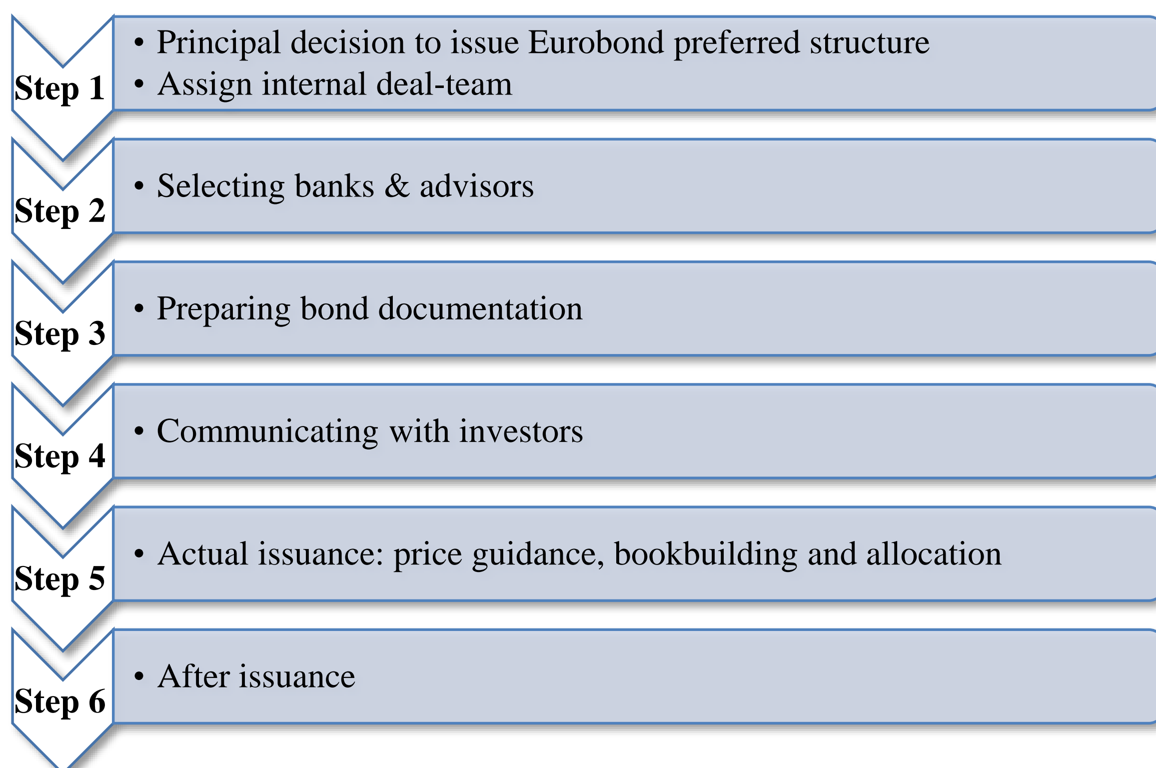
Source: World Bank/Dealogic.

The note outlines the process step by step and provides practical advice related to international bond issuance. The main text below is the step-wise guide of the Eurobond issuance process, followed by some technical annexes. The steps, see Figure 3, address fundamental decisions –

starting with what, when and where to issue and the selection of banks and advisors – as well as technical elements, such as the methodology to calculate all-in funding cost.

The note summarizes many unwritten conventions and focuses on aspects of international bond issuance that are under the control of the issuer. It is important that an issuer is aware of any written and unwritten conventions throughout the process and how the roles and responsibilities are defined in each step. While mandating lead-managers and legal counsel implies outsourcing, the issuer should be heavily involved in all phases of the issuance process. That requires preparing well for each step. Other aspects are market-determined, such as pricing and the determination of the coupon, meaning that the issuer has little control, but still needs to understand the transaction in sufficient detail to be able to ask the right questions and take well-informed decisions.

Figure 3: Step by Step Guidance on International Issuance



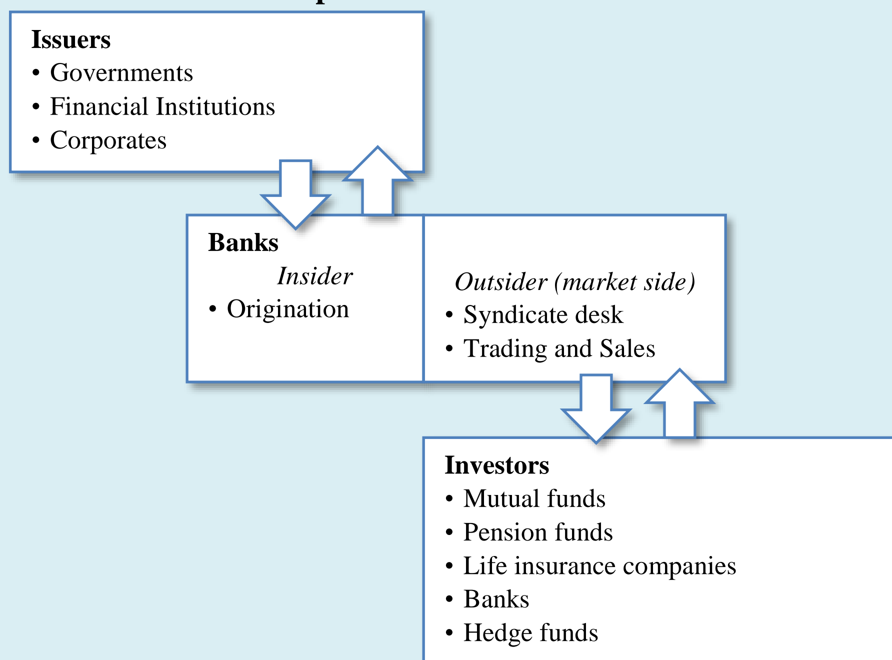
The issuer needs to be aware of the potential macro-economic and monetary impacts of international issuance. There are policy questions such as the impact on a country's debt sustainability outlook, monetary policy, on reserves and on the currency. These impacts may materialize both at issuance and at the time of debt service. Any issuance should be well anchored in a sound macro-fiscal framework. There should be close coordination with the central bank. A bond issuance may, for example, result in a need for sterilization of liquidity impacts. While these are important policy matters, they go beyond the scope of this note.

The Structure of Debt Capital Markets

In the debt capital markets, there are three key categories of parties to a transaction: issuers, intermediating banks and investors (Figure 4). Issuers are primarily in contact with the so-called originator of an (investment) bank. Such a contact is an "insider", implying that he may receive information from the issuer that is non-public, and he is not allowed to divulge, not even internally. "Outside" the "Chinese wall" are the syndicate desk, the salesforce and secondary market traders. The syndicate desk is responsible for new issue execution, including pricing, allocation and risk management. The salesforce is the client-facing part of the investment bank vis-à-vis investors, responsible among others, for obtaining orders for the new bond.

There is a large variation in types of investors, both geographically and by investment objectives. For example, while a pension fund has a long investment horizon that is similar to a life insurance company, the horizon is rather different to a bank, which requires short-term liquidity and has a balance sheet based on floating interest rates. A Japanese investor might have a different investment culture to a French investor. Investors have an investment strategy that they follow and often require an internal risk management committee to assess proposals for individual investments such as a new bond issue. This can imply that investors may require additional time before subscribing to new issues and should be approached as soon as is allowed, even if informally; the marketing period preceding the book-building is instrumental. International investors often require an "investment grade" credit rating (see also below). Furthermore, many investors are limited to holding a maximum share of the outstanding volume of a bond, which may also need to have a minimum outstanding size to ensure tradability. This minimum amount held by some investors may be relatively high compared to the issuance volume offered by a LIDC. For example, a very large global investor may be unwilling to take part in an issuance where US$ 1 billion is offered from an infrequent issuer. Traditionally, the US dollar market has a larger share of investors with a longer experience in developing countries, and thus can provide easier access.

Figure 4: Structure of Debt Capital Markets



Step 1: Pre-Phase

For a Minister of Finance with imminent financing needs, international commercial financing can be perceived as an attractive, quick opportunity to cover financing needs, despite the risks that it could create in the debt portfolio. The alternatives may be less appealing: the domestic capacity of developing markets is often insufficient and sufficient (semi-) concessional financing may not be available for the intended purpose. Investment banks often have direct access to the Minister, putting him in the driver seat, at times at the risk of sidelining debt managers in the execution process, except for administrative support. Instead of leaning on internal debt management capacity, an outside investment bank is often hired as direct consultant to the Minister. Ideally, Eurobond issuance should be managed as part of standard debt management processes and well-anchored in a medium-term debt management strategy.

Establishing a Task-Force

A high-level strategic decision process should precede the issuance of a Eurobond. First, it should be carefully explored whether a Eurobond issuance fits the fiscal framework and does not jeopardize debt sustainability. In addition, a major financing decision, like a Eurobond issuance, should be taken within the framework of a medium-term debt management strategy. The strategy provides guidance regarding financial terms, and whether an international bond would fit in the public debt composition, relative to other sources of financing. From the strategy comes a preferred currency, interest type, and maturity, as part of an overall financing plan. For example, the possible maturities that would fit the redemption profile of the existing portfolio.

One possible option would be to establish a Eurobond task-force or transaction team, composed of different sections within the Ministry of Finance and chaired by the head of the debt management unit.[4] Ideally, the debt management unit functions well and issuance of Eurobonds are handled as a part of usual debt management decision-making and operational processes. A task force would not be necessary in that case. The reality is that the debt managers are often sidelined in the international bond issuance process and at times lack staffing and capacity to manage a first transaction independently. A task force, combining several competencies, would be a functional compromise. Meanwhile, it is essential to avoid the creation of large bureaucratic debt committees that would slow down the process.

The task-force or debt management unit would have the following responsibilities:

1. *Ensure that analyses about an international bond issuance are reflected in the medium-term debt management strategy.* The strategy, along with published borrowing plans, will inform (international) intermediaries and investors that an issuance is being considered and support their investment planning. Staff responsible for the medium-term fiscal framework and budget should be involved.
2. *Coordinate with the Central Bank.* It is important coordinate on monetary and macro-related aspects of the transaction, such as the impact on international reserves, on monetary policy, the need for sterilization (and how to sterilize), etc.

[4] In this Note, we generally refer to the neutral term 'debt management unit'; this can be a department, an office an agency or another organizational entity

3. *Develop and maintain a technical understanding of international bond issuance processes, documentation and pricing.* This Discussion Paper provides initial guidance but deepening the technical know-how, such as bond pricing, yields, credit spreads, etc., and understanding the broader context is essential for assessing any proposals on issuance and for subsequent negotiations. Proactive transparency and communication could benefit the issuer affecting demand and price, as issuers are competing with each other for a limited amount of capital available and investors do not always have detailed knowledge about the country.
4. *Collect market information from the investment banks and internally report on it.* Following the market's risk perception and perceived correlation between issuers is important. Banks produce a lot of research, both on the macro-economic developments and on global and regional interest rate movements. Furthermore, there is information on new issue activities from peer countries (currency, maturity, issue spread), as well as secondary market pricing developments (yields, spreads). The Task Force or debt manager could, furthermore, benefit from contacting colleagues from peer countries to discuss their experiences with recent issuance.
5. *Prepare for the selection of lead-managers.* The selection process itself is elaborated in Step 2.
6. *Select a legal counsel.* As illustrated in the next step, the documentation around an international issuance is comprehensive. Ideally, the debt management unit has its own legal expert, who should be part of the task force. However, an external legal counsel with specialized knowledge of international securities laws and markets is still required.
7. *Prepare and coordinate documentation, in cooperation with macro-fiscal and legal departments.* While documentation contains a significant amount of standard legal text, the base prospectus requires substantial macro-fiscal disclosure, including information on indebtedness.
8. *Assign operational responsibilities.* Recording the transaction, ensuring that the bond is settled on time and arranging the ongoing debt service payments requires the involvement of staff from the back-office and the central bank. There needs to be an early check on aspects of accounting, payments, settlement and IT.
9. *Select agents.* The Task Force should be involved in selecting the Fiscal and Paying Agent and be their ongoing contact. Usually a bank is the fiscal agent, which clears the transactions with the clearing house. It is advised to train and test staff and system capabilities prior to issuance. International financial market participants have no tolerance for errors, especially delayed payments.

While each task force member will have their own responsibility, good internal information flow and coordination are important. While not all parties need to be active from start to finish, ongoing information exchange across the entire group is generally beneficial.

It could prove useful to discuss all the procedures prior to the issuance process with the (external) auditor. This might be important for securing transparency and accountability, for example with regard to the selection of lead-managers. Furthermore, it helps avoid criticism ex-post, whether public or political.

The task force should be proactive in the engagement with investment banks. It should ask the investment banks for explanations, training or guidance. If efficient banks are chosen, this assistance can be very fruitful; lack of issuers' experience or expertise will be anticipated. Critical questioning on the motivations of recommendation by the advisors and lead-managers, even on basic matters, should be frequent. This ultimately helps the negotiating position of the issuer, now and for future deals.

Solid governance and accountability in internal processes are essential for credibility. Transparency and accountability are key in achieving clear and objective execution. The governance framework for a Eurobond issue starts with the debt management strategy and by ensuring that the debt management unit is leading the planning and execution. As there are large sums involved, not just in the financing itself, but also in the related fees and expenses, banks often try to approach the Minister of Finance to close a mandate. Best practice for a Minister is keeping some distance from the banks, particularly during the pitching and selection phase. The Minister should rely on his staff to prepare and arrange the financing, leaving room to manage any disagreements between his staff and the banks when necessary, and close the final deal.[5] A clear hierarchy, an internally transparent selection process (see next step) and delegation of roles and responsibilities across a task force would reflect a professional approach. Meanwhile, internal procedures should be such that speed and decisiveness is not hampered. After the transaction, an internal evaluation of the process and the results helps accountability and provides a template for any future issuance.

Detailed Preparation

With a preliminary decision on Eurobond issuance, internal preparations can start. These center on planning. For a first-time issuer, it can take at least four months for the entire bond issuance process and it is important that the process is not rushed. Often, obtaining a rating and preparing the necessary documentation can be a bottleneck, while marketing and execution tends to be concentrated in a limited number of weeks. In the decision on the timing of the transaction, the market circumstances should prevail, i.e. an issue should be launched once preparations are finished but only if market circumstances are favorable.

While preparing for issuance, the potential issuer should start monitoring the international financial markets. While this is a standard task for the front office of a debt management unit, it now has a clearer purpose. Focal areas should be issuance by peer countries (maturities, currency, issuance spreads) as well as following and understanding global currency and interest rate movements. To this end, it is useful to develop informal and regular contact with banks who can provide market research and analytics. These banks can be domestic commercial banks or investment banks. This activity will also help to build internal capacity.

Bond Structure

A bond structure refers to the characteristics and the documentation format of the bond. Characteristics are, for example, currency, maturity, interest rate type (floating, fixed, indexed), and redemption (bullet or amortizing). In addition, the target size is crucial. The legal structure is concerned with global or Eurobond format; see Step 3 below. The preferred financial

[5] It happens in reality quite often that the Minister becomes the key contact of the banks and the process takes places 'behind-doors', which is not in line with solid principles of transparency and accountability.

structure should be guided by the medium-term debt management strategy and should be identified in the pre-phase. However, the final decision is made at a later stage upon consultation with lead-managers and taking account of bank proposals.

The size of the bond issue needs appropriate attention. The financing need and how to spread it over the alternative financing sources is the starting point. From a market perspective, investors often require a minimum size of US$ 500 million, to warrant tradability or liquidity in the secondary market; this is relevant for a potential exit strategy for investors. Another factor might be the minimum size to be eligible for international bond indices (EMBI or other). On the other hand, the issuer may want to limit the refinancing risk of a bullet redemption at maturity.

A key decision is the currency denomination of the bond. For emerging market issuers, the US dollar market is often more accessible and has a larger capacity, with dollar investors more willing to take on emerging market risk. However, for many issuers in Africa and central Europe, with currencies linked to the euro, dollar issuance may involve greater currency risks. In the past two years, some African countries have issued dual-tranche bond issues, i.e. a US dollar tranche and a euro tranche.

Issuing in the international capital markets allows sovereign issuers to issue at longer maturities than they generally can in their domestic markets in similar volumes. Only (semi-) concessional borrowing is typically longer-dated and, if a country is eligible, is the typically preferred source of financing, both in terms of price and maturity. The maturity range of 7-15 years is popular.

International investors are keen on standard bond structures, with a bullet redemption at maturity, which may not be to the issuers' benefit. Bullet redemptions can be risky as they need to be refinanced at one point in time. Therefore, sometimes countries opt for an amortizing structure; for example, the redemption equally distributed over the last three years.[6] These alternative redemption structures – if defined ex ante- can help significantly reduce roll-over risks without much additional costs. (See Annex III for a detailed discussion).

Step 2: Selecting Advisors & Executors

Banks and advisors will pitch and lobby to the highest levels of government to get a mandate to lead manage a Eurobond issue. The issuer has to select and engage four main types of advisors and/or executors when issuing in the international capital markets. The first two are optional: an independent advisor and a rating advisor. The other two play a key role in the transaction: the group of lead-managers and the external legal counsel. After a description of their role, some criteria for selection are provided.

The choice of advisors is critical. Choosing banks and advisors is a subjective process to some degree, but there are some tools to apply a number of objective criteria. While they are 'only' advisors and final decisions must remain with the issuer, through their expertise, the advisors and banks will tend to dominate the execution of the transaction once they are mandated. Therefore, good cooperation and confidence is important.

[6] For example, Cameroon 9.5% of 2015-2025.

Rating Advisor
Obtaining a rating from one or more of the main international rating agencies has to happen in the pre-phase. The rating may not be directly related to a specific financing operation, but a credit rating from one of the rating agencies, such as Standard & Poor's, Moody's, or Fitch, is considered a precondition for international issuance. An issuer can choose to obtain only one rating, but often issuers opt to get a second rating; the confirmation from a second ratings agency may improve investor confidence. A decision on the number of ratings to seek may depend on the time required for multiple ratings (usually 8-12 weeks per agency, although these processes can run in parallel).

The importance of ratings stretches beyond the implications for pricing bonds. To the extent that a rating impacts the cost of sovereign borrowing, it could greatly affect the government's fiscal flexibility. In most cases, the sovereign rating sets either a ceiling or a guideline vis-à-vis all corporate and financial sector ratings in a country, thus affecting overall private sector borrowing costs. The rating determines counterparty risk pricing for bank loans (many international banks rely on public ratings for their risk charge assessment) which, in turn, frequently affects the pricing for trade lines. It gives guidance to regulated institutional investors, such as pension funds and insurance companies, and often determines whether they are allowed to invest in a country. The sovereign rating, along with the publicity associated with it, serves as a common reference point for foreign investors at large, and as such, impact foreign direct investment flows.

Getting assistance of expert rating advisors can be considered to facilitate the process. Rating advisory can help getting efficiently and quickly through the rating process. The service of rating advisory from a potential lead-manager at little or no cost could be a factor in the selection process (see below), although this may require a premature commitment to a bank in the pre-phase.[7]

Independent Advisors
An independent advisor can assist an issuer in the selection of lead-managers, the preparation of the prospectus or helping with negotiations for the terms and conditions. Sovereign issuers in developing countries often rely on independent advisors to support them. For low-income and infrequent issuers, there is a need for developing internal capacity and for independent advice, given the lack of experience of debt managers in international bond issuance. The bond is often issued in a void, detached from the regular working of the debt manager. This can be addressed by temporarily bringing in some dedicated skills for handholding the debt managers. Furthermore, the decision makers can be quite vulnerable due to weak governance and lack of formal procedures. Having support from advisors could help these countries make better decisions. Also, rightly or wrongly, such advisors provide a layer of (political) protection to the policy makers involved in the process.

An independent advisor could sit alongside the issuer at the negotiation table as a counterbalance to the lead managers. While lead-managers are also advisors and expected to work in the best interest of the issuer, the success of an issuance is likely to prevail over the

[7] Stand-alone rating advisory may be expensive. Even though this advisory is separate within a bank, internal cross-subsidization happens. One can think of several solutions to the potential problem of premature selection of a lead-manager.

cost to the issuer.[8] An example of misaligned interests would be a currency proposal that provides more investor demand but also greater risk and thus, over the long term, is potentially costlier to the issuer.[9] Another example is that around the time of launch, lead-managers might press the issuer to accept a more generous price for investors. Or, for instance, the lead-managers may want to suggest a higher volume to get a higher revenue from fees. Financial advisors can support the issuer in situations of conflicted advice. This can be challenging, as lead-managers have the advantages of hands-on transaction experience, as well as direct investor and market information.

The usefulness of the financial advisor hinges on having the right expertise. Banks sometimes complain that advisors lack the required practical expertise of debt capital markets or that they try too hard to demonstrate their value-add, ultimately hampering, instead of facilitating, the process. Independent advisors are sometimes 'imposed' by the highest authorities for various (non-technical) reasons. If a country decides to hire an advisor, which is not always necessary, then it should strive for a strict selection process. Criteria for selection can be, for example, verifiable practical experience on the transaction side of debt capital markets; not only on the advisory side. Also, experience with sovereign debt management matters. These criteria apply to the individual advisors involved and the issuer should focus on a critical selection, beyond well-known names.

Lead-Managers

Lead-managers are both advisors and responsible for the execution of the bond issue. The issuer needs to be aware of potential conflicts of interests in this dual role; see above on the support that a financial advisor can provide. Practically, the key functions of lead-managers are in a broad sense: underwriting, marketing, distribution and pricing. Of these listed functions, the capacity for risk taking and distribution are the main required attributes.

Lead-managers need to be assessed primarily on their marketing and distribution capabilities. Comparing (investment) banks, there are significant differences in their potential reach to investors. These differences are not static and should be reassessed before each transaction.

Underwriting capabilities have become less important. Underwriting used to be crucial when lead-managers took the whole transaction on their books before distribution was ensured. Now, distribution comes first, through a process of book-building before the transaction is priced and closed. Even without full formal underwriting, the lead-manager's risk is one of reputation and potentially, in case of insufficient due diligence on disclosure, being forced to buy back the bond.

The appropriate number of lead-managers depends on several factors. The issuer often has to strike a balance between the added value of each lead-manager and including a bank due to its relationship with the issuer. Lead managers should complement each other, for example in distribution capacity or in execution experience. A prime factor is the size of the transaction: for an issue size of US$750 million to US$1.5 billion, often three lead-managers are chosen. More leads can make the issuance process difficult to manage, but can be justified in large,

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[8] A strongly oversubscribed transaction is often presented as a very successful deal but can as easily be described as a mispriced transaction where lead-managers could have done a better job for the issuer; see the section on pricing.

[9] Banks look at markets from a professional, arbitrage perspective that can be different from the absolute yield and risk perspective of a sovereign issuer.

multi-billion transactions. An exception could be made if a bank has a unique investor reach for a specific transaction.

Legal Counsel

It is important for an international issuer to have their own experienced international legal counsel. Lead-managers have their own legal departments and legal counsel, not to be confused with the markets' advisory and execution service that those banks provide to the issuer. Documentation is often directed at protecting the lead-managers and investors. An experienced international legal counsel will know where the (largely standardized) documentation leaves room for negotiation and can protect an issuer as much as possible. Such counsel can be expensive, as international bonds are mostly issued subject to English or US law.[10] See also Step 3 and Annex IV.

The Selection Process: Some Considerations

It is good practice to select banks and advisors with a clear procedure based on objective criteria. Prospective lead-managers and advisors may try to seek access at the highest level of government. The top decision-maker should keep at arm's length of the selection process, avoid one-on-one meetings, refer to his staff when banks want to visit, and rely on the Task Force for preparing the selection proposal. After the selection is made, there will be many personal contacts at all levels.

It is common for less frequent issuers to invite candidates through a Request for Proposal (RfP).[11] For all categories, the key selection criterion centers on the transaction proposal, as well as the professionalism and international experience of the advisor, counsel or bank. The issuer has often made a pre-selection of advisors and banks who will receive the RfP, based on reputation of excellence or demonstrated interest in the issuer.

It remains a challenge to specify the RfP in such a way to obtain responses distinctive enough for selection. The candidates should be pushed on their differentiating strength in their reply. In the selection process, key general assessment criteria are, among others:

1) Proposal of the candidate for the bond issuance (as far as not pre-defined by the issuer):
    a) bond structure: currency, maturity and issuance size, in the context of the bank's perspective on market conditions. It is useful to ask for a discussion of alternatives.
    b) a good new issue proposal should include target investors as well as likely placements
    c) pricing, timing and expenses.
    d) Finally, fees and expenses should be clearly indicated and translated also in an all-in annual rate of financing (see also below).
2) Credentials of the candidate
    a) Professionalism and expertise (specifying the people that will be directly involved in the transaction);

[10] In some ways, legal counsel incurs liability for which they charge additional expenses, such as the 10B5 opinion connected to selling into the US, either via 144A or a global bond.

[11] More frequent and experienced issuers tend to rely more on an ongoing dialogue to select banks. In that dialogue, financing ideas and market developments are discussed. Those issuers often apply some rotation to keep the competition alive. Banks or advisors have to prove themselves repeatedly through a deal track record. Frequent issuers rarely use independent advisors and generally rely on the same legal counsel throughout years.

b) Depth of its distribution capacity (also called "placement power"), especially for the credit category of the issuer;
c) Risk management, enabling not only an underwriting commitment but also the capacity to price the bond issue under difficult market or hedging conditions (i.e. what are the bank's limits for taking bonds on their books, at allocation or post-issuance);
d) Power to provide post-transaction support to the transaction (i.e. stabilizing the price); and,
e) Reputation for ongoing secondary market support, among others demonstrated by its participation in relevant secondary markets of peer issuers.

A potential challenge with the lead managers is the risk of conflict, i.e. when the lead manager is mandated by more than one issuer in the same region and/or market at the same time. It is ambiguous and case-dependent if this is a disadvantage or not. On one hand, a first-time or smaller issuer runs the risk of sub-optimal treatment and less priority. On the other hand, the market intelligence and investor contact stemming from the other deal might actually help the issuer. Either way, the (candidate) lead-manager should explicitly commit to disclosing and discussing a potential conflict, in the RfP or at any time thereafter.

A practical tool for selection can be a scorecard for assessing the candidates for lead-manager. A recommendation presented to senior decision-makers which is based on such a scorecard helps to ensure a transparent and well-founded choice.[12] Table 2 below provides an example of a scorecard in which criteria are grouped under (1) the issuance proposal; (2) the bank's placement power; (3) the relationship with the bank over time; (4) dedicated research that, while independent, could help distribution; and, (5) secondary trading performance in the issuer's bonds (or its peers).

A pragmatic approach on a scorecard is assigning relative scores by comparing RfPs. Such a scoring method is of course merely a tool. The weights that the issuer assigns to each criterion should reflect its priorities; the weights in the table are just an example. The scoring and weights should allow for some level of subjectivity in the decision, as a list that is too objective can corner the issuer. The risk that potential lead managers tweak the information provided to fit more easily to the criteria should be minimized by keeping the scoring process and methods confidential.

Applying league tables for scoring banks requires some caution. Banks often use league tables as a marketing tool to demonstrate their credentials. These tables play a central role in international debt capital markets. League tables can be cut in different ways to show strength in a specific currency or region; or for a category of issuers. There is a need to be careful in predefining league table parameters upfront given the risks of potential manipulation, such as, for example, i) using a league table directly from an established data provider such as Bloomberg; ii) setting a defined period, say the last year and/or the last three or five years; or iii) using a specific reference group of issuers (like, EM or non-investment grade, etc.). Furthermore, issuers should keep in mind that it is common practice for banks to buy some

[12] This helps to reduce the suspicion of potential kick-backs. Apart from laws, most investment banks have strict internal rules regarding gifts and entertainment to public officials.

Table 2: Scorecard – An Example

Criterion	Answer Bank X	Weight	Score Bank X (2,4,6,8,10)*
Issuance proposal		**25%**	**8**
Currency	US$	3%	10
Maturity (clear choice?)	10 & 15 years	4%	10
Indicative spread over swaps	415bp	5%	6
Pricing methodology	1. new issues; 2. peer group; 3. spread over swap	5%	8
Fees	10bps	5%	8
Underwriting commitment	10% of issuance amount	3%	4
Placement power		**25%**	**7**
# League table regional bonds	3	8%	8
# League table US$ sovereigns	2	6%	10
Focus: global/regional/domestic	R	3%	6
Discussing investor names	Y	3%	4
Roadshow	Y	3%	6
Conference calls, web	Y	2%	4
Relationship[13]		**20%**	**3**
# of years	7 y	3%	8
Previous experience	bit difficult	3%	4
# of JLM roles in past 5 years	2 deals	7%	2
$ amount of net fees in past 5 years	US$200,000	7%	2
Research		**15%**	**7**
Regional economic coverage	Good	8%	8
Country coverage	Moderate	7%	6
Risk and Trading		**15%**	**5**
Limit on holdings of country bonds	US$100 million	5%	4
Volume Eurobonds past 12 months	US$1.2 billion	5%	8
Domestic market activity		5%	0
Total score		**100%**	**6.12**

** The scoring is best made relative to proposals from other banks. Weights in the table are examples.*

[13] Rotation among banks as lead-managers can be an important consideration for regular issuers. The relationship assessment on the score-card can help in this respect (in an inverse way).

league table ranking through free or subsidized (in terms of fees) transactions. Still, league tables can provide useful insight in a bank's qualifications.

In developed countries, lead-managers may be chosen among the group of primary dealers in the domestic market. In those countries, there are often international banks among the primary dealers and they benefit from that status as a preferred counterpart. In this carrot-and-stick approach, the issuer can benefit from more aggressive bidding in domestic auctions by banks competing for a syndicate role. In emerging countries, apart from the largest, locally participating banks rarely have the expertise and investor reach for international issuance, unless they are a subsidiary or branch of international banks with expertise in debt capital markets.[14]

When selecting lead-managers, it is essential to focus on achieving a balanced group of banks who complement each other. Across regions, banks have different distribution strength, so combining them can create synergies. Some banks might have better execution and pricing skills. It is beneficial to track the performance of banks and advisors in other transactions and keep in touch with other issuers on performance.

Creating a Team-Approach

Even if the internal selection is finalized, there remains the final step of ensuring that the chosen banks agree among each other on the fundamental characteristics of the transaction and costs (fees, commission, expenses), as well as the process (such as the marketing approach). This would normally get confirmed in a first lead-managers group or 'kick-off' meeting with the issuer.

Costs of Advisors and Other Expenses

When comparing alternative financing sources, the focus should be on all-in cost. A Eurobond issue typically involves fees (commissions) and expenses. The three large components are fees for the lead-managers, rating costs and legal expenses. Those transaction costs are paid at time of issuance ("upfront"). To enable comparison, an all-in annual funding rate needs to be calculated, as is shown below.

Fees for Joint Lead-Managers

Fees for the lead-managers are an often-debated element in the transaction costs. They are agreed at the time of mandating a bank for a lead-management role. There may also be a fee structure for co-leads or a selling group.[15] In practice, fees are negotiable and strong competition among banks often result in very low fees[16]; however, there is little transparency, especially for emerging market bond issues. For the category of frequent, higher rated

[14] A possibility would be to make domestic banks co-leads in the transaction. Under the current system of book-building and after-market support, lead-managers care heavily about keeping control of the transaction. As a result, if the issuer really wants co-leads or some (minor) role for the domestic banks, the leads often prefer giving the co-leads some fees but no bonds unless they have true placement capacity. Adding co-leads is generally done for other reasons than better distribution and the success of the deal.

[15] Co-leads and selling groups have become more or less redundant since the issuance has moved from "bought deals", passed initially on the books of banks, towards "book-building", where the bonds are placed before the deal prices.

[16] It should be noted that some sovereign issuers that are known to select on fees, sometimes get away with very low or nil fees, with banks subsidizing those deals to gain on league table rankings. However, such a strategy might not always provide the best result.

Sovereign, Supranational and Agency (SSA) issuers, a transparent, unofficial market reference has developed. Those fees are standardized by maturity: upfront fees of 0.05 percent up to 5 years, 0.10-0.15 percent for 7-10 years and 0.175-0.225 percent for 15-30 years;[17] So for example, a US$ 1 billion 10-year issue would generate 0.15 percent or US$ 1.5 million in fees, shared between, say, three lead-managers. In theory, frequent sovereign issuers should pay the least, as both execution effort and risk are smallest for that category; irregular issuers and/or issuers with higher credit risk should be paying higher fees and first-time issuers the highest. In practice, this is not always the case. Despite the lack of transparency, EM issuers could benefit by trying to track pricing as well as fee levels in other transactions in the market, especially of their peer group of issuers, to find the right balance for themselves.

Rating Costs

Another major expense is often for obtaining a rating. There is an initial country rating for which the cost is often low as a teaser, but the main cost lies in the rating for each bond, which can run up to 8-12 basis points upfront; in effect a similar amount as the fee for the lead-managers.

Legal Expenses

The cost of legal counsel depends on the bond format that is chosen.[18] The cheapest format is a Reg-S Eurobond; see Step 3 and Annex IV. A Eurobond under Rule 144A requires a legal opinion from the Counsel (so-called "10-B-5") which can drive up legal expenses - an indication of the upper band is US$500,000.

Other Expenses

Finally, there are expenses for marketing, especially roadshows, listing, fiscal and paying agents and, if applicable, for independent advisors. The roadshow expenses, including travel costs of the entire team that will visit investors – are covered either directly by the countries themselves or through an advance by the banks which is ultimately deducted from the bond proceeds. Costs will depend on which investors are targeted and thus where the roadshow is going. In Europe, London and sometimes Paris or Frankfurt are visited. If the US is targeted, that country should probably be included in the roadshow scheme; if Asia is also targeted, Tokyo, Singapore, Hong Kong, Shanghai could be included. The broader the roadshow, the higher are the expenses. See also Step 4.

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[17] The market convention is to express spreads, fees, etc., in basis points, i.e. 0.15% equals 15 basis points. With upfront fees and expenses, the market talk can be in "cents" instead of basis points but it should be considered as the same.

[18] Most expensive and complex are Global bonds - see Annex IV. A Reg-S issue is the cheapest format but with a limited investor reach.

Table 3: Illustration of Cost Components of USD 750 Million, Ten-Year Eurobond

Bond		in quoted format	US dollar proceeds
Issuance price at yield of 6.15%.	(a)	99.815%	748,612,500
Fees and Expenses			
Joint Lead-Managers		15 bps	1,125,000
Independent advisor			150,000
Legal			250,000
Bond Rating		10 bps	750,000
Rating advisory			40,000
Listing etc.			35,000
Total fees and expenses to be paid upfront		(b)	2,350,000
Total proceeds to issuer		(a-b)	746,262,500
All-in price (proceeds/face amount)		99.5017%	
All in funding cost		**6.193%**	

Total fees and expenses add to the borrowing cost – in this example by 4 to 8 basis points per year. Table 3 illustrates how fees and expenses – with an estimate at the lower band - add up and impact the all-in proceeds and costs. Best practice is to translate upfront costs to an annual mark-up on the issuance yield. The longer the maturity, the more upfront amounts are spread in time and thus result in a lower mark-up. In the example of Table 3, about 30 basis points in upfront cost translate in 4.3 basis points of mark-up on the annual yield. There is limited transparency on fees and expenses, especially in the case of a first time or infrequent issuer.

Caution is advised for using fees as a leading selection criterion. As mentioned, banks often accept low fees when they know it is the main driver to get a mandate; sometimes also to promote their league tables ranking or to position for other business with the issuer.[19] When pressuring for low fees, the issuer should ensure that it does not result in less commitment, i.e. fewer senior staff involved in the transaction, or less balance sheet made available for underwriting. Or banks can limit the execution risk and allow more favorable pricing for the investors.[20] In the end, a higher issuance yield of say, 5 basis points equates roughly to 50 basis points of upfront fees on a 15-year bond. While there is no clear relationship between the fee level and its potential consequences, it can be counterproductive using it as the only or main decision factor in the selection process.

[19] Fees are - at best - 2 basis points in annual yield to maturity (sometimes also called *running yield*); i.e. annually; depending on the maturity, this comes down to an upfront fee of 15 cents for a ten-year and 5-7.5 cents for a five- to seven-year bond. That US Agency fee level has become common for most frequent sovereign and supranational issuers, which carry less work and less execution risk.

[20] The risk of favoring another issuer for which the bank is also lead manager tapping the market at the same time should be covered from the start. See section on selection of lead-managers above.

Step 3: Documentation[21]

First-time international issuers are confronted with many formalities and spend most preparation time on the documentation. By contrast, domestic issuance requires little or no documentation. The degree of required disclosure for the prospectus, including macro-fiscal data, might be uncomfortable to a first-time issuer. In addition, several formal authorizations might be required prior to issuance, necessitating primary or secondary legislation. The legal documentation required for international issuance, usually based on UK or US common law, is extensive and strict.

The main official document for a bond offering is the (base) prospectus. It has a common structure, largely prescribed by securities laws: [22]

1. A summary
2. Risk factors, such as rating outlook, macro-fiscal risks and also political and security risks that might ultimately affect the capacity to service the debt.
3. The form of the notes, the conditions of the notes and the final terms,
4. Information about the issuer, including:
   a. Information about the issuer's history and current affairs, government and politics;
   b. A detailed overview of the economy: GDP, balance of payments and foreign trade situation, the monetary and financial system and policies, the public finance situation and the country's indebtedness;
   c. The use of the proceeds from issuance
5. Selling restrictions (subscription, sale, transfer); a very important element as lead-managers and the issuers are wary of the legal consequences of inadvertently selling to unauthorized investors, see below.
6. Finally, technical aspects of the issuance are described, such as the book-entry clearance systems (DTC, Euroclear, Clearstream), taxation issues, and other general information, like listing.

Under new Markets in Financial Instruments Directive (MiFiD II) rules in the EU, a target market needs to be defined and communicated. This would need to be incorporated in the transaction announcement and the documentation. For example, "Professionals & Eligible Counterparties only" or "Retail, Professionals & Eligible Counterparties". The exclusion of retail is often to avoid additional requirements, such as a three-page information document.

[21] This section focuses on documentation components where an issuer has to be active; Annex IV provides further elaboration. It should be noted that this Guidance Note does by no means reflects legal expertise and issuers should seek their own legal counsel before preparing any documentation.

[22] The most common legal framework for Eurobond documentation is determined by the EU Prospectus Directive (Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC.).

International bond issuance requires significant disclosure of macro-fiscal information. The Ministry of Finance has to provide the parts in the prospectus that contain country information and macro-fiscal information. These are the sections 2 and 4 of the list above and a financial advisor can provide assistance. Meanwhile, the legal sections will be prepared by the Counsel. During the final stages of the process there are 'due diligence calls' with a senior official, often the Minister, to ensure that all relevant information is disclosed. Any misleading or incomplete information may generate the risk that the investors return the bonds to the issuer. If lead-managers have not made best efforts to get all the material information, including through due diligence calls up to the last moment, then they could also be liable. In the US market, the SEC-18K document is an illustrative example of a document that has to be updated regularly.

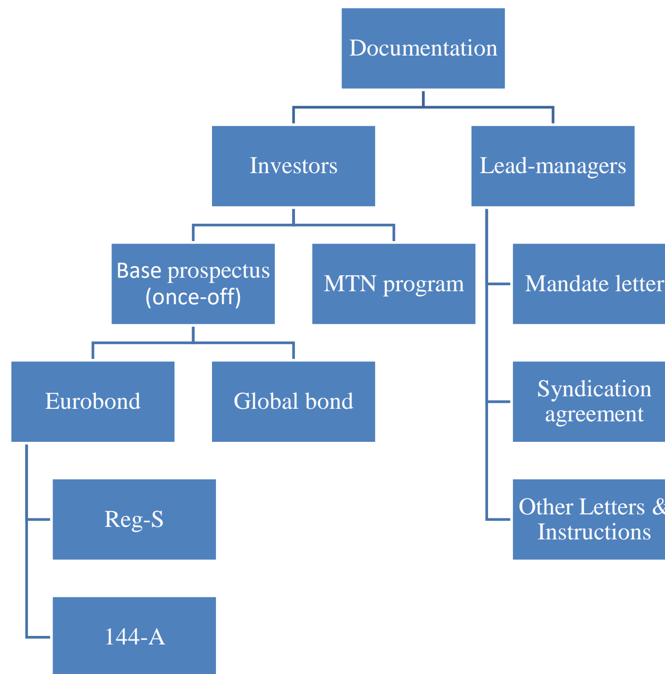
Given the large amount of required information, the issuer has to ensure that sufficient resources to develop the prospectus are available. While the legal counsel and the legal departments of the lead-managers will guide the process, staff of the Ministry of Finance is needed to work on the contents of the prospectus.

The issuer needs to choose between the legal format of a Global bond or a Eurobond (and in latter case, Reg-S or 144-A). A financial advisor can be useful here. International capital markets - and thereby legal documentation - are still subject to national laws focusing on protecting domestic investors. Therefore, selling restrictions apply to those countries in which bonds will be distributed.[23] Some countries, like the USA, have strict selling restrictions in order to protect investors. If it is considered necessary to reach all investors in the US, a Global bond may be the best format, despite heavy disclosure requirements in the prospectus and commensurate higher costs. Eurobonds are easier in terms of cost, procedures and requirements, if selling outside the US suffices. A compromise solution is often found in a Eurobond with a "144A clause", making it possible to sell to only professional investors in the US:[24] The banks should indicate their preferences and motivations in the RfP. It is also important to ask legal counsel for advice before deciding on the form of the issuance. Jurisdictional matters are elaborated further in Annex IV, as well as other documentation related to issuance.

[23] The currency-denomination doesn't matter. For example, an investor based in the UK managing US dollar investments is subject to UK selling restrictions, if any.

[24] These investors are typified as qualified institutional buyers (QIBs). A QIB is a purchaser of securities that is deemed financially sophisticated and is legally recognized by securities market regulators to need less protection from issuers than most public investors. Under Rule 144A there are minimum requirements for assets under management or net worth for a QIB.

Figure 5: Overview of Issuance Documentation



Step 4: Investor Communication and Relations

> In the international capital markets, issuers are competing for the interest of investors. This demands a proactive attitude, transparent communication and a commercial approach that may be awkward for an administration. 'Investor relations' needs to become a strategic activity.

Transparent communication and predictability are essential for all stakeholders and especially investors. A key stakeholder is the central bank who needs to be involved from the start. The foreign currency proceeds will often end up with the central bank, who should be able to anticipate a large financing operation and its potential consequences for monetary policy.[25] Similarly, (international) intermediaries and investors need to be able to anticipate the issuing activities in time for their investment planning.

For issuers, the explicit management of investor relations is a core and ongoing function. The better and more directly investors are informed, the higher the chance of participation in the operation. Proactive relationship management towards domestic investors is also very important. These investors are expected to have a natural affinity and understanding of the country's politics and economics, but the issuer should care for them both for domestic and international issuance. In the international markets, sovereign issuers have to work even harder to gain attention from investors. Even for non-frequent issuers, an investor relations function in the debt management unit and a comprehensive and updated website can ultimately lead to cost savings. Unduly negative risk perceptions from the investors' side – evidenced by

[25] The impact on domestic liquidity will occur when the financial proceeds are exchanged for local currency to pay for local spending.

misgauged country risks vis-à-vis its regional neighbors – may overstate the credit risk and push up the issuers' borrowing costs. This highlights the importance that the relative credit strength is adequately stressed in a technically sound manner.

Roadshows provide an opportunity to meet investors face to face and to present and market a new transaction. Roadshows are organized by the (potential) lead-managers, which often are a combination of one-on-one meetings and group sessions. Regular issuers usually rely on non-deal roadshows throughout the year. Non-deal roadshows can also be complemented by regular (e.g. quarterly) investor calls. Those can be better prepared and strongly help getting fast deal execution, as road-shows are no longer required at issuance. For effective investor-oriented events, the issuer should prepare a presentation to offer concise information relevant for the economic outlook, recent developments on the government's agenda and detailed information on debt management activities, for example, debt profile, structure, borrowing plan objectives, investors base.

As discussed in the next step, the lead-managers and their sales force have deep individual investor know-how. The issuer can learn much during the book-building process and should ensure online access to the order-book. This helps for after-issuance contact with participating investors which may help extended holding of the bond, when preparing a new transaction in the future, or when considering future liability management operations. The lead-managers can provide more color on the investors during the process, which is also helpful when the issuer is asked to agree on the allocations.

It is good practice to build a solid database of the investors that have been met or that should be met. The order book is useful for such a database. This should, among others, result in direct mailing of updates with regard to country information. It is good practice to maintain investor relations on a continuous basis, and not just ahead of a new bond issue. Investors can express their interest in the country also in the secondary market. If such interest is sufficiently large, it will drive the country-specific spread down, which will benefit the issuer if it decides to access the international market again.

Step 5: Execution

After all the preparation, the actual execution phase is the most visible and risky part of the transaction: the book-building, allocation and pricing of the new issue. The operation concludes with the signing and settlement, finally resulting in the transfer of funds. While the lead-managers and their syndicate desks are in the drivers' seat, there is still a role for the issuer.

The timing to launch a new issue is a delicate matter. After the long preparation phase, there will be pressure from the issuer to move ahead quickly, as it might need the funding. Meanwhile, the market conditions need to be good for the best result in terms of volume and price. The international capital markets can be volatile, especially regarding the interest in issuers with relatively high credit risk. In good times, there is often competition among issuers to be the first to execute the transaction. There are periods where the frequency of deals coming out is very high and other periods are very quiet; for example: August tend to be quiet, whereas the first week of September is very active, just like January normally is. Investors typically rearrange their portfolios in these periods, temporarily increasing the demand.

The lead-manager should defend the interests of his client but may have conflicting interests when having several mandates at the same time in the same region. There is normally close communication on the timing between the issuer and the syndicate desks, who would be sounding among some key investors and internal sales on potential interest. Best practice is to discuss this during conference calls with all lead-managers.

The price guidance is the other crucial variable in the execution phase. The different approaches in the price guidance, as well the build-up of reference pricing is addressed separately in Annex I. A delicate balance needs to be found between an aggressive low issuance yield for the issuer and a sufficiently attractive, high yield for the investors, also warranting positive secondary price performance. The lead-manager will tend to favor the latter, as that facilitates a successful, oversubscribed deal.

The issuer should have the final say over the pricing. An infrequent issuer with an attractive credit reputation could at times afford an aggressive 'hit and run' approach without caring if the investors fare well afterwards. On the other hand, an issuer that has to return to the market regularly or has a less favorable reputation cannot afford to squeeze out the last basis point; that might haunt them in the next deal. Another point of discussion in this context can be the 'new issue premium', that is the premium to be added to the secondary market reference (either of peer bonds or, with a reopening, the same bond). It is useful to discuss and agree on these pricing elements in early phases, when selecting and mandating lead-managers.

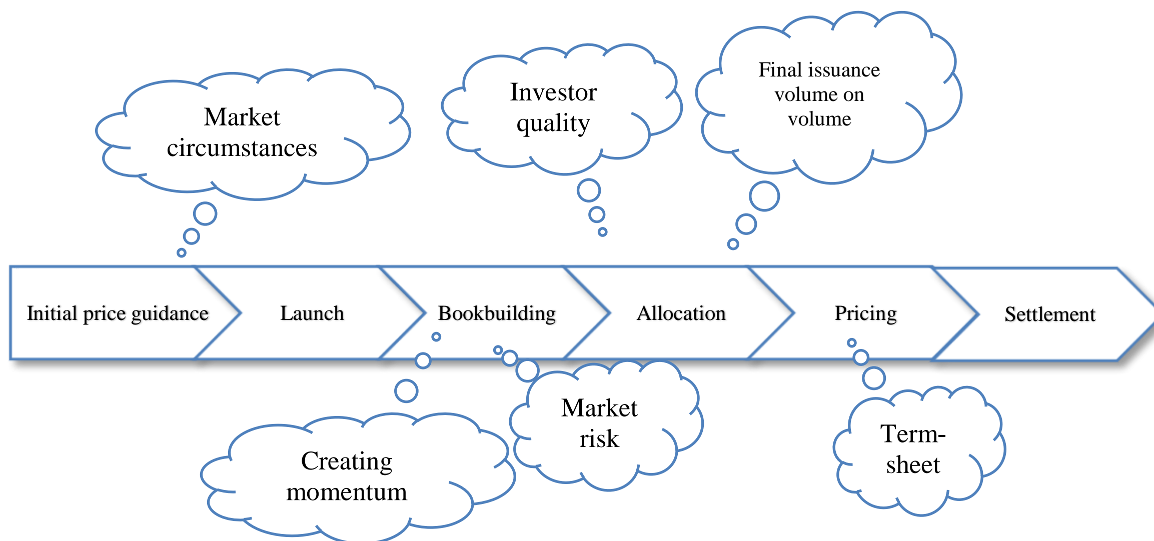
For the issuer, the most important active involvement in the execution is in the conference calls. The issuer is on these calls together with all lead-managers. The syndicate desk of the investment bank is generally leading the calls. In the first call(s) the market environment and general bond price developments will be discussed, leading up to the final decision to go ahead (the go/no-go call). It is quite common at this stage that the syndicate managers try to soften the price guidance compared to the original proposal, i.e. make it more attractive for investors and thus easier to execute.[26] Sometimes there is good reason for change. The validity of changing the price guidance will be difficult to assess, given the asymmetric information at this stage. Price reference often changes in the (long) period after mandating the lead-manager. However, the pricing methodology should be agreed upon again in the early phases, limiting potential surprises. As the issuer will be hesitant to stop the transaction, the issuer can be in a very weak negotiation position at the last moment.

The book-building process refers to the collection of buy orders from investors.[27] This is where the sales-machine of the investment banks gets into gear. Each bond salesperson covers a category of investors or region and tries to get orders. The bulk of the investors generally have confidence in the price guidance of the lead-managers and put orders in at the re-offer price, that is the uniform price at which the bond will ultimately be sold; others will put in orders with price limits.

[26] In some cases, the lead-managers have even tried to change other terms of the transaction, such as maturity or currency. The latter has happened to issuers aiming for issuance in euro (for currency risk considerations) but where the lead-managers got cold feet at the last moment and preferred the safer US dollar market.

[27] In this context, the lead-managers are also called "bookrunners".

Figure 6: Execution Process of a New Eurobond



Issuers should have real-time view access of the orderbook. The lead-managers will use an internet-based system where all the orders are put in on a name-by name-basis. The issuer should request a login for the system to view the book as it develops during the transaction. For understanding the process, it is important that the issuer actively follow this information flow and, in case of doubt, ask questions to the lead-managers. The issuer can gain insight in the type of investors that are most active, which might help in future investor relations activities.

The syndicate desks of the lead-managers focus on the quality of the participating investors. The higher the quality, the more solid and durable the placement is expected to be, resulting in minimal selling pressure on the bond and good price performance in the after-market. Such price performance is not just relevant for future transactions but also for the image and reputation of the issuer in the international financial markets. Consequently, syndicate desks aim for orders from solid “real money names”, i.e. institutional end-investors such as insurance companies, pension funds and mutual funds, who are expected to keep their bonds for an extended period. Least priority is given to “trading accounts” who have a reputation to be subscribing for a quick gain. Those investors may undermine the secondary market price performance, as any potential selling pressure may result in the bond price going below the level of issuance, creating a mark-to-market loss for all the investors. Banks often fall in this category, as well as some hedge funds. Experienced syndicate desks know how to categorize investors and properly identify long-term holders. They are also aware that some hedge funds often play a crucial role in giving the book-building the necessary early momentum, as their decision process is often faster than other investor categories. Some big investors may pressure the deal managers to allocate them a larger share of the offering, leading to a concentration in the book.

There is an important dynamic in the book-building process. Investors like to jump on successful deals with well-developing order-books but keep away from deals that struggle. While it seems obvious, it makes the success of a transaction somewhat binary and self-reinforcing. It is a key driver for success to start with relatively attractive price guidance. Based on the development of the orderbook, the syndicate desk should discuss at least daily with the

issuer whether adjustments in the price guidance are necessary or appropriate. (See Annex I for an elaboration.)

An orderbook should not be open more than a few days to limit execution risk and demonstrate a positive impression of the issuance. A large part of the marketing has already taken place in the preceding period, through roadshows, etc. When the orderbook is open, it should be a matter for the lead-managers and their salesforce to "close" the orders with their investor clients. The book-building and allocation process should certainly close within the working week, if only for controlling the market risk.[28] A well-functioning deal with oversubscription could well close in five to six hours. If, during book-building, the general market suddenly turns bearish (i.e. bond prices go down and yields go up), investors often hold off on new buying, including orders for new issuance. Investors are sensitive to the momentum of an issuance and a lengthy struggle getting orders often deters investors from participating (or even leads them to withdraw orders). Just before the orderbook is closed, investors are asked to confirm their orders.

Once the orderbook is closed, the reconciliation and allocation processes start. The reconciliation is a matter of collating all orders and removing duplicates. This is not complicated if the issuance is just fully subscribed. On a (heavily) oversubscribed orderbook, however, first a quality differentiation is made, as described above. For this assessment, syndicate desks have extensive expertise with the behavior of individual investors, either by category of investor or by individual names or any combination that is suitable to the specific transaction. The issuer should participate in the allocation discussions to the extent possible and express its views and preferences. When the issuer wishes to increase an allocation, for example to an investor seen at a roadshow, or limit another allocation, it needs to be able to negotiate this with the syndicate desk. Allocation is subject to new, strict regulations, such as for Eurobonds, the MiFiD II and the Market Abuse Regulation (MAR). Among others, a target market needs to be defined and communicated; see also Step 3. And investors need to receive a justification of their allocation.

The pricing phase is important for the sovereign issuer as it anchors the absolute yield. This is where the focus of the issuer and investors tends to be different. The investors generally focus on the spread, which is set at the closing of the orderbook. However, the issuer looks to the sum of the reference rate and the spread. At pricing, the reference rate is set in a conference call with the lead managers and the issuer and will be based on current market conditions. The table below illustrates how the bond price is derived from the reference rate and the spread. Annex I provides more background. It is recommended that the issuer keep track of the case studies describing the operation, book composition, distributions by asset class, region, etc. that banks traditionally produce.

[28] For example, sovereign bond pricing is a function of a reference low-risk benchmark bond with similar tenure, for example, the US Treasury or Mid-Swap or Bunds for EUR denominated so on. The longer the period the book stays open, the higher the risk that these references may change significantly.

Table 4: Bond Yield, Spread, Coupon and Issuance Price

Maturity 10 years		in quoted format
Reference 10-year rate	a	2.95%
Credit spread for the country	b	320 bps
Issuance or Reoffer yield	**c %** (=a+b/100)	**6.15%**
Coupon (semi-annual)	rounded down to:	6 %
Issuance price	bond price-yield formula	**98.892**

Once the pricing is concluded, the final terms of the transaction can be determined, and the documentation finalized. The capital markets contact sends a term-sheet to the issuer. The legal staff from the banks finalize the documentation and the paying agent prepares the settlement.

The issuance process ends with the signing, closing and settlement. At this point, the bond is formally issued, and the issuer receives the proceeds. On issue, the legal documents are signed by the relevant parties, the issuer delivers the bonds to the bondholders and the bondholders pay the issuer. The timing is aligned with the issuer and is dependent on the documentation being ready.

Step 6: The After-Issuance Phase

A Eurobond issuance operation consumes significant if not most internal debt management resources for some months, especially for a first-time issuer. After closing, the debt managers can refocus on their daily work. However, ongoing monitoring of the Eurobond in the market will be a new, ongoing additional task.

There is a quiet period between the issuance and the settlement date (a week later), where officials are not supposed to make statements about the operation.

Usually, one of the lead-managers is assigned a role as Stabilizing Agent. The intent of a stabilization mechanism should be disclosed in the prospectus. EU regulation limits stabilization activities to 30 days after start of secondary trading and should happen only at a price below the original re-offer price. Generally, stabilization transactions should be reported to the markets' authority. A stabilizing bid is a purchase of the bonds by the lead-managers in order to stabilize, or support, the secondary price of a security immediately following a public offering when the price of the newly issued bonds falters or is shaky in trading in the aftermarket. It is important to agree on this before the operation because the lead-managers might be required to use proprietary capital to work on the stabilization. If so, they also have the incentive to deliver a successful deal. There is no rule about how a price should move immediately following the issuance, but the issuers and the lead-managers typically want it to be successful in delivering a short-term gain, to motivate its staff and investors. That is why the issuance price is often seen to be underpriced so that the first day ends with the bonds in profit for investors. The obligations for the stabilization agent can be, for example:

1. Providing liquidity to avoid price movement. This means the lead-manager is prepared to act as counterpart for buyers or sellers for a short while after the issuance is closed and the bond is free to trade in the secondary market;

2. Supporting the bond if its price drops below a certain level in the secondary market. This price support is often done by a repurchasing some of the bonds.

Once an international bond is issued, work remains for the front and back-office of the debt management unit. The back-office has to organize the international debt service payments diligently, as payment delays in international markets can have serious consequences, for example, triggering default events and affecting the CDS (Credit Default Swap). The back-office has to be in touch with the fiscal agents and the regulatory authorities to make sure the funds move timely before the final deadlines. Beyond that, after initial access to international markets has been achieved, the country is likely to return to that market, even if just every couple of years. Throughout the life of the outstanding bond, the back-office must monitor payments events, update the quantities and prices in case of re-openings. This brings along an ongoing effort with fiscal agents, investors and the need of keeping informed on market developments.

The front office needs to actively follow what happens to the secondary market price of the bond over time. Working-level contacts need to be established with a few banks. In verbal and digital contact with banks, especially the lead-managers, the debt managers need to get an understanding of the drivers behind the price movements: is it a generic market move where the country just is repriced with the rest of the market? Or is the price move specific to the country? If so, are there real secondary trading flows occurring to underpin the price move, or are the market-makers repricing without trading, in which case the price information is less reliable? It is good practice to regularly produce an internal, one-page report for the decision-makers with price developments and key market information (preferably in a standard format), based on ongoing contact with the banks.

Market intelligence can also serve when a reopening of the bond is being considered. For example, when there is a limited but urgent financing need, but that need is not large enough for a new bond. Or when market circumstances are very favorable, i.e. the yield and spreads are considered low. However, the impact on the redemption amount needs to be assessed also; see Annex III on repayment challenges.

Conclusion

The issuer should ensure an ongoing active role in all the phases of the international issuance process. In the pre-phase, when the medium-term debt management strategy is established, the authorities need to make the basic decision whether or not to issue in the international capital markets and assign a deal-team internally. The second step centers around selecting the key parties to advise on and execute the bond issuance; the mandate to the lead-managers needs to include a consensus on the bond structure (currency, maturity, volume, etc.). The following step, the formal documentation, is a considerable part of the process, especially for infrequent issuers; and should start very early on. The subsequent step concerns marketing the bond and building investor relations, where the lead-managers and advisors can help, but where the issuer himself is central. The fifth step is the actual issuance, from book building and pricing to the final settlement phase; the issuer has no control over the market, pricing and investors but should seek to control the final decisions on the deal. The final step regards the monitoring and stabilization of the after-market, once the bonds are issued; responsibilities remain for the life of the bond: ongoing monitoring of the (secondary) market, fulfilling debt service payments

Hedging with Cross-Currency Swaps

Countries, including LIDCs, are increasingly considering swaps in combination with international financing in order to either reduce currency risk or lower the all-in funding cost.

Issuing Eurobonds in a hard currency implies an increase in currency risk. There is an increasing focus of EM countries on hedging opportunities, often promoted by investment banks. Hedging in local currencies is often not possible as there is generally no market for such an operation. But there is a large market for hedging from one hard currency to another, like from US dollars to euros. This could provide useful risk reduction for issuers who might prefer to issue in US dollars but whose country is pegged or economically linked to the euro. Banks often propose issuers a combination of a bond issue and a (cross-currency) swap. A cross-currency swap is effectively a combination of two opposing interest rate swaps and a basis swap; the principal amount can be exchanged optionally at start and end of the swap. Such a derivative transaction results in the issuer paying the debt service in the chosen, economically more closely linked currency instead of the currency-denomination of the bond. The purpose is to avoid either an unwelcome currency exposure or to obtain a more favorable all-in funding cost.

The operational pre-conditions for contracting and managing derivatives such as swaps are very demanding. While hedging the market risk, such derivatives bring along a series of other risks (Figure 3). Especially, the liquidity risks can be material, flowing from the requirement of frequently posting (or receiving) collateral related to the market value of the swaps (only the best rated countries have been able to avoid this). A simulation in a country case showed that the fluctuations in required liquidity, reflecting the Value-at-Risk (VaR) on a dollar-euro swap, are roughly 20 percent on a one-year horizon and more than 40 percent on a 10-year horizon (maturity of the bond in this case). When reviewing derivatives pitched by investment banks, this part is often not addressed.

Foremost, handling derivatives requires a highly sophisticated treasury and operational setting. These are rare in lower and middle-income countries developing countries. Some international institutions, like the World Bank, can offer such hedging without collateral requirements, easing the operational requirements.

Figure 7: Interconnected Risks of Derivatives

and the like. Some parts are discussed in more details in the annexes. Seen as a whole, substantial parts of the process are delegated to professional parties, but the issuer needs to put in considerable work of its own to get the issuance done.

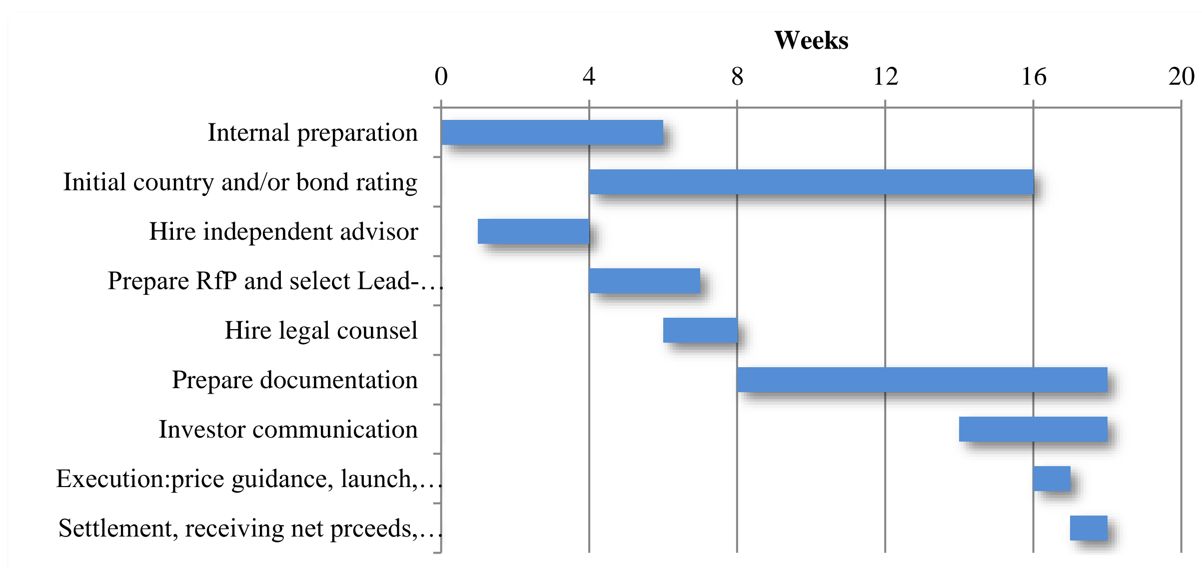
The issuer needs to develop solid technical understanding internally of the international bond issuance process in every aspect. The issuer will receive a lot of input from expert advisors, banks and legal counsel. However, this shouldn't lead to outsourcing of responsibilities. In this context, it is critical that the issuer remains actively involved through the entire issuance process. Technical assistance could be sought to develop the internal capacity.

Timeline for an International Bond Issuance

While the time required from the start to end for international bond issuance is case-dependent, indications of usual practice can provide some insight. The chart below gives an indication of the time required for each step in the process. Each of these steps are discussed in detail, except the rating, which in principle is not directly connected to the financing transaction.

Common practice for first time or infrequent issuers is that the bond issuance process requires at least 3-4 months from the moment that lead-managers are selected. The timing is largely defined by the rating process (8-12 weeks) or the documentation (6-8 weeks); these can be done in parallel to avoid the transaction taking five months. While the timing of the rating decision is determined by the rating agencies, the bond documentation has disclosures requiring input from the Ministry of Finance and, in some cases, line ministries. When macro-fiscal information can be collected efficiently, the process can be faster.[29]

Figure 8: Planning an International Bond Issue, in Weeks



[29] Frequent issuers apply a different regime where the issuance documentation is formulated as a program and made independent of individual issuance. This can dramatically shorten the process for individual issues; in some extreme cases transactions take place even within 24 hours.

Annex 1: Pricing of a Bond

While the Steps in this Discussion Paper describe the process, there are technical aspects related to how international bonds are priced. There is more than one interest rate relevant (both a coupon and a yield), there is a reference rate and a 'spread', and the issue may be priced below 'par'. The bond issue proceeds are reduced due to fees and expenses.

Price Guidance

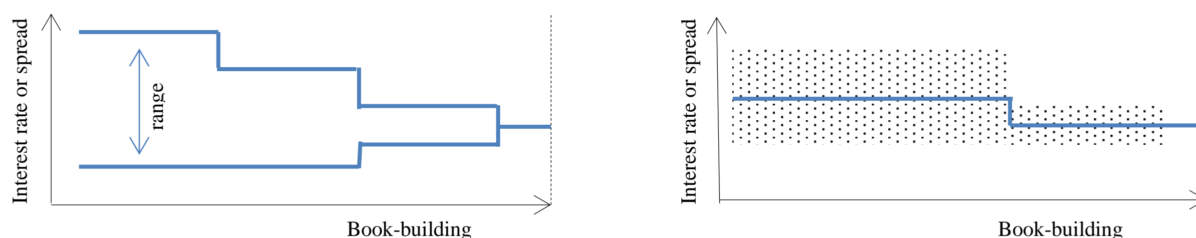
There are several ways to present the price guidance of a new issue. In fact, price refers here to either (a) the yield on the bond; not the coupon, see below; or (b) the 'spread' over a reference interest rate. Then the price guidance can be expressed as (see illustration below; the blue lines reflect the price guidance):

a. a range, mentioning both a low or expensive end and a high or cheap end of the range – from the investor's perspective. This allows generating initial momentum at the cheaper end of the range, which can subsequently be narrowed down to the more expensive level; investors are pulled in by the momentum, making them ultimately accept the more expensive pricing.

b. A single price indication with an "area", for example '6.10 area' in case of total rate, or '+320 area' as a spread. This leaves some vagueness on purpose.

The syndicate managers will discuss their preferred approach with the issuer on the call.

Figure 9: Illustration of Price Guidance with "Range" and "Area"



The topic of pricing can potentially generate tension between issuers and lead-managers. There is a trade-off between the issuance yield and the execution risk of the transaction. In the pitching phase, banks try to convince the issuer of the advantages of a Eurobond and for the bank to be selected as lead-manager. As it will take some time before the transaction materializes, such pricing are only indications. To get mandated, banks may provide (too) aggressive pricing in the pitching phase, knowing that ample time remains to change the pricing if they consider the execution being at risk. Note that updated indicative pricing rarely turns out to be more beneficial to the issuer. Meanwhile, the authorities tend to (politically) commit to the financing costs when obtaining approval and subsequently face reputational risk should the final pricing differ substantially from the initial one. A strongly oversubscribed transaction is often presented as a very successful deal but can as easily be described as a mispriced transaction where lead-managers could have done a better job for the issuer. Sometimes, the softer price is disguised by a change in the terms, like maturity or currency; for example: a frequent EM issuer accepted an upward shift in yield while extending the maturity of the bond

from a traditional 30y bond to 100y, while it turned out the increase in duration was not significant, in contrast to the increase in the cost for the transaction.

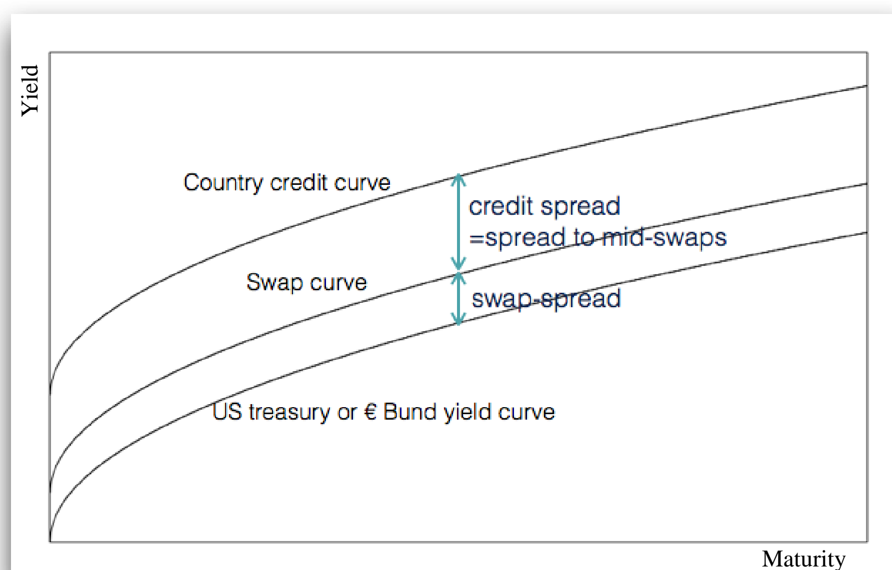
However, lead-managers can also push for price guidance that is too wide to limit their risks. This makes the transaction easier to execute, but at the cost of a higher interest rate to the issuer. If an opposite approach of tight price guidance is chosen, often demanded by the issuer, this may risk a slow momentum in getting orders and leading to a negative spiral of widening of the price guidance and a struggling transaction. In addition, investors will fear instant market losses once the secondary market is "free to trade". The balance between these two approaches is sometimes challenging to identify. A financial advisor with transaction experience may be of assistance to the issuer here, but there is a chance of the consultant trying too hard to prove his 'added value', without suffering the same execution risk that the issuer or the bookrunners have.

Coupons, Yields and Spreads

Authorities are generally quite sensitive to the coupon, as this will be seen as the interest rate by the larger public. Investors, and the market at large, care about the (effective) yield. In practice, the coupon is taken from the yield and rounded down to the next ¼% in euros or 1/8% in US dollars. For example, if the issuance yield of a US dollar bond is 6.15%, the coupon will likely be set at 6 1/8%. Investors prefer an issue price below 'par' for accounting reasons.

While issuers care mostly about the overall issue yield, the banks and investors evaluate an individual bond at its relative price or spread level. The yield of a bond is the sum of a risk-free reference interest rate and a specific mark-up or spread for that bond. The spread reflects largely the perceived credit risk of the issuer but can also carry a premium for the (anticipated) tradability or illiquidity of the bond. The distinction supports the investment approach where interest rate risk is managed separately from credit risk. Risk free rates are provided by the most liquid bond markets, such as the US Treasuries or German Bund market, or, dominantly nowadays, the derivatives markets for interest rate swaps. Thus, over time, the overall yield movement of a certain bond is driven by both global interest rates – reflected in the risk-free reference rate – and specific spread developments for that category of credits or that individual issuer.

Figure 10: Yield Curves



Even if the issuer focuses primarily on the absolute issue yield, it needs to understand what the drivers are behind that yield. That understanding will help in negotiating with banks. For example, it might be easier to get banks to commit to the often less volatile spread than the overall yield. The marketing to investors and the price guidance for the order book will all happen on spread.

Bonds denominated in US dollars or euro have different pricing conventions that might occasionally make a difference for investor interest. The US dollar market tends to use US Treasuries as a risk-free rate reference, whereas the market in euro uses the swap market.[30] See Table 6 below for an example, where the spread of the new issue is 320 basis points over the swap reference rate and 330 basis points over the US Treasury 10-year rate. The "swap spread", that is the yield difference between US Treasury and dollar swap yields, is currently small but has been very volatile over time, meaning the reoffer spread to either one of the reference rates could be very different. Furthermore, the spread to the benchmark US treasury doesn't adjust with a maturity difference with the new bond; in situations of steep yield curve that can matter. When these factors cause the reoffer spread to be wider, the optical attraction for investors often generates more demand.

The issue price is established after the allocation on a conference call with all lead-managers and the issuer. At the closing of the orderbook, the spread is already final. Thus, in the call, the reference rate is called by the swap traders. The reoffer or issuance yield is just a matter of adding up the reference rate and the spread. The coupon is established by rounding down to an agreeable percentage; investors prefer a small discount in the issue price and the issuer likes to lock in the lowest coupon, so those interests are in the same direction. The negative point for the issuer is that the proceeds will be lower than the face or nominal amount. See Table 4 for an example.

Table 5: Bond Yield, Spread, Coupon and Issuance Price

Maturity 10 years		in quoted format
US Treasury 10-year		2.85%
Swap Spread		10 bps
Swap yield	a	2.95%
Spread for country	b	320 bps
Reoffer yield	**c %** (=a+b/100)	**6.15%**
Coupon (semi-annual)	decided at:	6 1/8 %
Issuance price	bond price-yield formula	**99.815**

[30] It should be noted that this distinction has been gradually disappearing for Eurobonds. It is still largely relevant when issuing a "global bond" that settles (also) directly in the US.

Pricing Credit Risk

While most professional investors will do their own credit analysis on issuers, the rating by the credit ratings agencies plays a crucial role. Obtaining a rating from one of more of the main international rating agencies needs to happen in the pre-phase and may not be directly related to a specific issuance.

See the Table 6 below for a general description of the ratings of the major international rating agencies. Many investors have (statutory) limits on the minimal rating they can invest. For investors, it is not only the rating itself which is important but also the related report by the rating agency that underpins the rating. Each rating agency has developed their own approach or model for the rating.

Lower ratings translate into higher credit spreads for new issuance. The spreads vary significantly, even within the same rating bracket. To give a general idea, spreads for AAA-issuers can be just 10 to 20 basis points over the risk-free reference rate, whereas single-B rated countries may have to pay 600 basis points or more. The spreads are not static; if market sentiment is (temporarily) more risk averse, credit spreads will rise overall.

Credit Default Swaps (CDS) are another pricing reference for credit risk, next to a credit spread on a bond. It is a derivative with some important features: It is a protection against default and reflects how the market is pricing temporary fluctuations in the perceived debt service capacity. Relative to bond spreads, sovereign CDS spreads tend to reveal new information rapidly during periods of stress. Its use has been growing rapidly.

Table 6: Summary of Ratings and their Meaning for Credit Risk

	S&P/ Fitch		Moody's equiv.
Investment Grade (I.G.)	AAA	Extremely strong capacity to meet financial commitments. Highest Rating.	Aaa
	AA	Very strong capacity to meet financial commitments.	Aa2
	A	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances.	A2
	BBB	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions.	Baa2
	BBB-	Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions.	Baa3
High Yield (HY)	BB+	Considered highest speculative grade by market participants.	Ba1
	BB	Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions.	Ba2
	CCC	Currently vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments.	B2
	CC	Currently highly vulnerable.	Caa2
	C	Currently highly vulnerable obligations and other defined circumstances.	Ca
	D	Payment default on financial commitments.	C

Annex II: Cost of Carry

Financing in the international capital markets involves usually much larger sums of money in one shot than alternative sources. Eurobonds are issued in large volumes at a time, compared to much smaller domestic auctions or loans that often have a gradual disbursement profile. Spending the proceeds will generally be gradual, either for investments or the current budget, unless the issuance is directed at more or less simultaneous refinancing of a maturing bond.[31] This implies that the country has initially borrowed more than it is spending and thus has temporarily idle cash, for which it is paying interest. This excess cash can be invested in short-term deposits, but those rates are generally much lower than the interest rate on the longer-term Eurobond. This is called the cost of carry (of excess cash).

In our example below (Table 7), two stylized alternatives are compared: the cost of gradual borrowing in line with spending, for example through auctions, versus the cost of a large Eurobond issuance at the start of the year. When the growth of debt and thus of the interest cost is gradual, borrowing costs much less ($31.0 million against $46.5 million). Still, the excess cash can be invested in short term dollar deposits at, say, 2%, which helps reducing the cost, but the rate is too low to fully compensate the additional costs. The resulting cost of carry is $10.5 million.

Table 7: Illustration of Cost of Carry[32]

	Borrowing per 4 months	Debt at start of period	Interest cost
Alternative 1: Borrowing @ 6.193% aligned to spending			
Period I	250,000,000	250,000,000	5,160,833
Period II	250,000,000	500,000,000	10,321,667
Period III	250,000,000	750,000,000	15,482,500
Total interest cost			**30,965,000**
Alternative 2: Borrowing @6.193 all at once (Eurobond)			
Financing cost full year	(a)	750,000,000	**46,447,500**
Investment period I	2%	500,000,000	3,333,333
Investment period II	2%	250,000,000	1,666,667
Investment income	(b)		5,000,000
Net interest cost	**(a)-(b)**		**41,447,500**
Cost of carry			**10,482,500**

[31] The point that the availability of large cash sums might entice a different spending behavior is not addressed here.

[32] Explanation of the numbers: the assumption is that the need for money is evenly split over the year in three terms. In Alternative 1, the financing is spread over three issuances, say at Jan 1, May 1 and Sep 1. The interest cost over the cumulative debt grows gradually. Total interest cost is the sum of the cost in each period of 4 month (rate 6.193% divided by 3 times debt). In alternative 2, issuance is for the full amount on Jan 1, thus interest cost is the full annual rate 6.193% over 750 million. Given the gradual need for money, there is excess cash of 500 million in period I and 250 million in period II, which is invested at 2%. That investment income should be deducted from the interest cost to get the net financing cost.

The cost of carry should in principle be included in the all-in funding costs and can be significant. Using our previous example of the bond issue, Table 8 shows that the all-in cost of financing rises almost 20 basis points to 6.38%. A possibility to limit this additional cost can be the combination of a smaller initial issue, combined with reopenings at a later phase. Such a clear commitment to an ultimate size from the start, might even attract investors that would consider the initial size too small.

Table 8: Cost of Carry Under Alternative Approaches

Bond issue 10-year 6% US$ 750 million	Yield	Price	US$ proceeds
Issuance price at yield of 6.15%	6.150%	99.815%	748,612,500
Fees and expenses			2,350,000
After fees and expenses	6.193%	99.5017%	746,262,500
Cost of carry			10,482,500
After cost of carry	**6.384%**	98.104%	735,780,000

Annex III: Repayment at Maturity

After a country issued their only international bond several years ago, it is now facing a bullet redemption of US$ 750 million in one year, a very large amount relative to the size of the country and its normal financing volume. With an ongoing budget deficit, the authorities are anxious to secure a timely refinancing and avoid the risk of waiting until the redemption date. This section addresses some alternative solutions; it may be good practice to keep these already in mind at time of issuance.

Collecting large financing amounts through Eurobond issuance imply the challenge of a future large repayment in hard currency at maturity. Conventional Eurobonds typically have a bullet redemption, i.e. the full principal amount is repaid at maturity of the bond. On average, the bond issuances mentioned in the introduction had a transaction size of US$1.2 billion. For most developing countries, except perhaps the largest, such a redemption amount poses a significant refinancing challenge.

In general, refinancing through a new issue is the standard approach. However, there will always be material uncertainty on the accessibility of the international markets at the time of redemption. International investors may at that time be very risk averse regarding the country specifically or emerging markets in general. Such sentiment would probably also be reflected in the secondary prices, but demand for large new issues proves not always very price elastic; i.e. a higher interest rate or spread might not be sufficient.

There are a few options for the issuer to address the redemption challenge:

1. Back-end amortizing bonds instead of bullets

In this format, the redemption of the bond is spread over the last years running up to maturity. This reduces the refinancing risk. Issuing bonds in this format has become increasingly common among some emerging market issuers. This is no sign of weakness and can be explained to match the minimum size required by investors to the size of the country.

Investors could be made to recognize that is also in their benefit (lowering the credit risk), thus not requiring a premium for a deviation of the standard bullet structure. In the table below, an example is given for a ten-year bond; for much longer maturities, spreading the amortization over more years would be possible. Still, investors need the bond to keep its liquidity, i.e. size, during the largest part of its life and thus accept only back-end redemptions; with a few years to go, the liquidity requirement becomes less important. The outstanding size is also crucial for eligibility in bond indices, a key driver for investor demand.

Table 9: Bullet Versus Back-End Amortizing Bonds

Amortization type:	Bullet	Back-end amortizing
Redemption	100% in year 10	1/3 in year 8 1/3 in year 9 1/3 in year 10
Average life	10 years	9 years
Reference swap rates	2.95%	2.90%
Implied spread	325 bps	325 bps
Reoffer (issuance) yield	6.15%	6.10%
All-in financing cost (unchanged coupon) 33	6.193%	6.151%

2. Building up reserves gradually, creating the capacity to pay the redemption

An obvious alternative is preparing for a large redemption by building cash reserves in the run-up to the redemption date (also referred to as Sinking Funds). This is especially relevant when financing sources need to be (strategically) redirected, i.e. when the refinancing of maturing international bond needs to be (partly) sourced from another funding instrument. For example, if domestic issuance is increased to replace international financing (when the size of official foreign exchange reserves at least allows). With the typically large redemptions, such reserves building can in practice be only part of any solution. In addition, funds put aside and invested (at lower returns that the cost of the bond) to cover future repayments need to be in the same (hard) currency as the repayment currency. In practice, it may only be possible to generate such funds through borrowing. Finally, it has been demonstrated in the previous Annex that the cost-of-carry of building cash reserves can be very high.

3. Buyback or exchange operations

Liability management operations are common in emerging markets. When the bond has less than, say, two years of maturity remaining, an operation can be set up to buy back a portion of the outstanding bonds. Assuming the country has no sufficient alternative sources of financing, the buyback will need to be financed by new bond issuance; i.e. the operation would be an exchange rather than a separate buyback. Or there is a tender offer to buy back the old bond concomitant to a new issuance.

In practice, this operation would be set up in the same way as issuing only a new bond. The lead-managers will execute both the issuance and the buyback. Taking our earlier example of Table 5, we now assume the new issuance will be to largely refinance a bond with an outstanding of $750 million that matures in one year and two months. We assume also a successful exchange with 77% ($580 million) of the old bond being offered.

In the execution, there are some alternative formats to exchange the new issue leg and the buyback leg. A simple format is based on exchanging equal face amounts. In that case, separate money has to cover for the difference in prices and the accrued interest on the buyback bond. In our example, the new issue price is 98.892 and the gross buyback 105.293; the difference amounts to $37 million (this could be paid out of new issue proceeds). In a cash-neutral

[33] The impact on the all-in cost rate is different due to the average life.

alternative, the investor buys more bonds in nominal terms than he sells through the buyback; such that the proceeds balance out. In our example, the investor buys 6.5% more bonds; an exchange ratio of 1.065. The table below illustrates this exchange format.

Table 10: Example of a Buyback Leg in an Exchange

Outstanding bond		Buyback/exchange operation	
Maturity	1year 2 months	Buyback premium	0.25
Coupon	7.0%	Buyback price	102.96
One-year reference rate	2.0%		3.952%
Current market yield	4.2%	Accrued interest (4mo)	2.333%
Current spread	2.20%	Gross price	105.293
Current market price	102.71	Buyback face amount	$580,000,000.00
		Proceeds to pay	$610,701,333.33
		Payment source: new issue proceeds	$741,690,000.00
		Net proceeds (before expenses)	$130,988,666.67
		Exchange ratio	1.0647

Some practical points

- Exchanges are safer but might get less participation than buybacks. With exchanges, investors are locked in to provide the rollover. However, a number of investors may not be interested in continued exposure to the country at the market interest rate; they would just wait until redemption.
- A timely operation drives the success, as the remaining maturity should probably not be too short. Bonds with very limited life left tend to be mostly with buy-and-hold investors and it may be challenging (or expensive) to mobilize a sufficient buyback. A good timing would be when the bond drops out of an index due to its remaining maturity.
- Debt managers should be aware that buybacks or exchanges can be necessary but costly. Any premium in the price has great impact on the yield: on a one-year bond, 25 cents in price is roughly equal to 25 basis points in yield. It is a challenge establishing the correct buyback price, composed of a market price and a premium to entice investors to sell.[34] The starting point should be a solid theoretical fair valuation method, which may be difficult in practice due to limited or unreliable data.

[34] As bonds mature, their valuation "rolls down the yield curve": a yield curve is typically upward sloping Both the reference rates and the credit curve are normally upward sloping, reinforcing the overall steepness, i.e. market yields are lower when maturity shortens. With the coupon of the bond fixed, lower yields mean high prices (higher price divergence from 'par' or 100%). Meanwhile, however, those market yields will change over time. Furthermore, the price effect of lower yields will be offset by a bond price going to 'par' with falling maturity.

Annex IV: Official Documentation

Basic Features of a Eurobond

The term "**Eurobond**" refers in general to a bond which is listed, trades and settles in the European Union. For example, it can be listed in Luxemburg and issued under UK law. However, "Eurobond" doesn't point to a currency denomination in euros. In fact, the bonds can be denominated in any currency. The term stems from its similarity with what is known as Eurodollars: dollar deposits held at banks outside the US. Eurobonds are bonds that are listed and traded in the EU and are, in principle, not allowed to be sold in the US, nor do they settle in the US clearing system (the distinction can be grey, see Rule 144A below), even if denominated in US dollars.

Countries could also consider issuing a so-called **Global bond.**[35] A global bond is issued simultaneously in the Eurobond market and in at least one domestic bond market. So, for example, a bond that can be sold both inside and outside the US (and settles with the domestic and international institutes [36]). Any potential benefit in terms of pricing compared to a Eurobond needs to be weighed against the comprehensive and costly regulatory and documentation requirements of a Global bond. Apart from that, the principles described below are quite similar. The difference between a Eurobond and a global bond is often bridged with a 144A clause, which allows the Eurobond to be sold to qualified institutional buyers in the US; see more detail below. A global bond is regulated by the Securities and Exchange Commission of the USA.

The Legal Framework

CACs

Collective Action Clauses (CAC) are intended to make debt restructurings easier. The model clauses are published, upon consultation, by the International Capital Markets Association (ICMA), known as the ICMA model clauses.[37] CACs allow, for example, a supermajority of bondholders (the minimum is specified in the CAC; say, 75 percent of the bond holders) to agree to a debt restructuring that is legally binding on all holders of the bond, including those who vote against the restructuring. These clauses have become more common in sovereign bond documentation. Originally, there was opposition to CACs, as there was fear of lowering the threshold for the debtor to restructure or increasing the cost of issuance, but CACs have now become standard practice.

More recently, enhanced CACs have been included in an increasing number of prospectuses.[38] One new feature is a 'single limb' voting, requiring only a single vote calculated on an aggregated basis across all affected bond series i.e., a series-by-series vote would no longer be necessary. a creditor could no longer hold out simply by purchasing a controlling position in a

[35] Not to be confused with a Global Note; see below.

[36] At issuance, depending on the allocations, part of the bonds is placed in US DTC settlement system and the other part in one of the European settlement systems. DTC is a member of the U.S. Federal Reserve System, and a registered clearing agency with the Securities and Exchange Commission.

[37] ICMA New York and English law standard CACs, pari passu and creditor engagement provisions; May 2015; https://www.icmagroup.org/resources/Sovereign-Debt-Information

[38] See http://www.imf.org/external/np/pp/eng/2014/090214.pdf

particular issuance. Another enhancement concerns a modified *pari passu* provision that explicitly excludes the obligation to effect ratable payments.

Issuing Country

Eurobonds are issued pursuant to one or more laws of the issuing country authorizing the issuance and, if applicable, the refinancing of debt securities for a specified period of time. This depends on a country's legal framework, but the following steps could be considered:

1. Parliamentary Approval of the issuance of Eurobonds.
2. A Council of Ministers Resolution authorizing and empowering the Minister of Finance to enter into the various agreements and sign the various documents on behalf of the Issuer.
3. Resolution of the Minister of Finance approving the principal amount to be issued and the interest rate.
4. Minister of Justice Update Opinion and Affidavit confirming (i) that the issuance is in conformity with the country's laws; and (ii) the signing authority of the Minister of Finance to execute documents.

There may be other **legal opinions and authorizations** required, some related to formal procedures within the country of the issuer. Others are between the lead-managers and the issuer, such as a certificate of the issuer of the continued accuracy of the representations and warranties contained in the Program Agreement and the Syndication/Purchase Agreement. In addition, legal opinions are provided by the issuer's counsel to the government; and the issuer's counsel to the joint lead managers; and (3) the international counsel to the joint lead managers.

EU Prospectus Directive

Eurobonds are subject to the **EU Prospectus Directive** (Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC) as a result of sales to investors in Europe and the Luxembourg listing. The Prospectus Directive requires the inclusion of (1) a "Summary" section; (2) Risk Factors; and (3) Other standard information about the Issuer, including information about the issuer's history and current affairs, government and politics, economy (including, GDP, balance of payments, external sector, monetary policy, fiscal position and debt). The EU Directive addresses, in addition to the format, the incorporation by reference and publication of such prospectuses and dissemination of advertisements.

Luxembourg, where a Eurobond is usually listed, implements the EU Prospectus Directive, as well as other relevant European Union law (*e.g.,* the Transparency Directive, the Market Abuse Directive, etc.). Luxembourg law also has a small number of additional requirements. The Commission de Surveillance du Secteur Financier (CSSF) is in charge of enforcing the law on prospectuses for securities concerning the drawing-up, approval and distribution of the publication when securities are offered to the public or admitted to trading on a regulated market (the "Prospectus Law"), as well as of the "EU Prospectus Directive".

The prospectuses drawn up in accordance with the Prospectus Regulation will be able to benefit from the single European passport, meaning that a prospectus, once approved for the offer to the public or the admission to trading on a regulated market by the CSSF, will be accepted anywhere across the European Union.

The **Listing Documents** would include a Letter of Undertaking by the Issuer; the CSSF Entry Form; a Declaration to the Listing Agent; a Declaration in relation to the admission to the EU Regulated Market; and an Application for Admission to the Luxembourg Stock Exchange.

United States

Securities issued pursuant to Regulation S are not subject to U.S. regulation. The regulation by the U.S. Securities and Exchange Commission (SEC) provides a safe harbor for "offshore" sales. Eurobonds often take advantage of this safe harbor.

The requirements for eligibility under **Regulation S** are that (1) the sale of Eurobonds occurs outside of the United States; (2) investors make their investment decisions outside of the United States; (3) there is not a "substantial U.S. market interest" in the securities; (4) public statements accessible in the United States are kept to the minimum required by applicable law (which for all intents and purposes includes virtually all public statements that are published or quoted). For example, the latter point also requires access limitations on the Issuer's website. U.S. investors can, however, purchase the Issuer's Regulation S Eurobonds in the secondary market or through off-shore accounts

Rule 144A allows for sales in the United States to "qualified institutional buyers", or "QIBs", which, broadly, are large institutional investors with over U.S.$100 million in assets. It is considered as a "private placement". Rule 144A is a resale exemption – the joint lead managers have to purchase the securities first from the issuer and subsequently sell the securities to the investors. For selling to US QIBs, an MTN Program needs to be compliant with the requirements and standards of Rule 144A.

Liability
The Issuer is responsible to ensure that **all material information** that might affect an investor's decision to purchase its Eurobonds is included in the Base Prospectus and any Base Prospectus Supplements and that no such material information is omitted.

Under the EU Prospectus Directive, the **issuer is required to accept responsibility** for the information in the Base Prospectus and any Base Prospectus Supplements.[39]

There might also be a potential U.S. Liability for material misstatements and omissions on Regulation S. However, the potential liabilities under Rule 144A securities are more specifically described. Section 10 of the U.S. Securities Exchange Act on 1934 and Rule 10b-5 – the general "anti-fraud" provision that applies to misstatements or omissions in any communication related to the purchase or sale of a security, including under Rule 144A. In addition, Section 17(a) of the U.S. Securities Act of 1933 is another anti-fraud provision that can apply to private placements, such as under Rule 144A.

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[39] A text is included like "Having taken all reasonable care that such is the case, the information contained in this Base Prospectus is, to the best of the knowledge of the Issuer, in accordance with the facts and contains no omission likely to affect the import of such information"

Other Issuance Documentation

Next to the main bond document, the **Base Prospectus** discussed in Step 3 and above, there are other documents involved in the issuance process, of which some are listed below:

In this Discussion Paper for infrequent issuers, we have focused on "Stand-alone bond documentation". Frequent issuers rely mostly on a **Medium-Term Note program (MTN)** or Bond program where a set of forms is created that allow for efficient and less expensive issuances of notes in series. It can be used to undertake any number of bond issues – or re-openings - in the future subject to a maximum program limit and subject to updating the program, allowing the bonds to be issued in multiple series, different currencies, various maturities and with different interest provisions, etc. Actual takedowns happen when Eurobonds are issued under the program in series. There is a Base Prospectus that is updated at least annually. The Program is also updated as necessary to reflect legal or regulatory changes. A Program Agreement defines the relationship between the Issuer and the Dealers.

The **Fiscal Agency Agreement** defines the relationship between the Issuer, on the one hand, and the Fiscal Agent, Paying Agents and Registrar, who are agents of the Issuer, on the other.

The **Mandate Letter** is the agreement that appoints the Joint Lead Managers. A **Syndication Agreement** is used if the Joint Lead Managers are arranging for the sale of the Eurobonds to investors. Otherwise there is a Purchase Agreement, i.e. the agreement by which the Issuer sells the Eurobonds to the syndicate of Lead Managers and co-leads.

Among the formal **Letters and Instructions**, there is a Consent to Print, which is the confirmation by the Issuer that it has reviewed the Base Prospectus/Base Prospectus Supplement/Final Terms and is in agreement with the contents. Furthermore, the Signing & Closing Memorandum provides the formal list of steps to be taken prior to and at the signing of the transaction documents and the closing of the transaction.[40]

The main take-away is that the legal part is complex and requires expert assistance. A sovereign issuer needs to involve the internal jurists from the Ministry, as well as hiring a specialized, international law firm.

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[40] Others are the Payment Instruction Letter from the Ministry of Finance to the Joint Lead Managers with the Ministry's account details; the Managers' Payment Instruction Letter to Fiscal Agent, confirming the Ministry's account details to the Fiscal Agent and directs the payment of the proceeds of the issue be made to that account; the Letter from the Issuer delivering the Global Notes to the Common Depositary; an Authentication Order Instruction from the Issuer to the Fiscal Agent to countersign the Global Note; the Confirmation from the Common Depositary of Receipt and Authentication of the Global Note; a cross receipt; a Confirmation of Listing of the Eurobonds by the Luxembourg Stock Exchange and, finally, a Certificate notification that the Eurobonds have been accepted by the clearing institute.

Glossary: Agents in the International Capital Markets

In international bond documentation, there are references to several agents that each perform a distinct role in the bond issuance process:

The **Issuer** is the entity issuing the Eurobonds and raising or borrowing funds.

The **Arranger(s)** are one or more banks coordinating the Issuer's formal interactions with the Dealers, most notably when updating the Program or the Base Prospectus.

With **Dealers** the documentation refers in the first place to Permanent Dealers, which is a panel of international investment banks that participate in the updating of the Prospectus and transactions under the Program. In addition, there are the "Dealers for the Day", the other international investment banks or local banks that participate in a transaction on a one-off basis. Whether or not a bank is a Permanent Dealer is largely a relational matter.

Joint Lead Managers are the banks underwriting or placing a particular transaction, whether as permanent Dealers or Dealers for the Day.

Institutional investors: large professional investors often operating internationally, such as mutual funds, insurance companies, pension funds and also banks who invest for their own book.

Counsel: The Issuer and the Joint Lead Managers each appoint local and international counsel who issue legal opinions. The Issuer's internal counsel also often issues a legal opinion.

The **Fiscal Agent** is an intermediary between the Bondholders and the Issuer and is an agent of the Issuer. Many issuers use a **Trustee** instead of a Fiscal Agent. The principal difference is that trustees are agents of the Bondholders. Most sovereign issuers use a Fiscal Agent structure.

Paying Agents invoice the Issuer when payments of interest or principal are due and then pay the funds to the Bondholders through the Clearing Systems. The Paying Agents are usually either the same entity as the Fiscal Agent or affiliates established in other jurisdictions.

The **Registrar** is the institution that keeps the official list of the beneficial owners of the Eurobonds.

The **Common Depositary** is the bank that holds the Global Note(s) on behalf of the Bondholders.

The most common **Clearing Systems** are Euroclear and Clearstream. The clearing systems facilitate the issuance of Eurobonds and the distribution of payments to Bondholders internationally and operate sometimes through local branches.

The **Competent Authority** is the national regulator that approves the Base Prospectus and admits the Eurobonds to the Official List of securities.

The Stock Exchange is the listing venue for the Eurobonds.

Glossary: Documentation Jargon
In international bond documentation all sorts of terminology are customary:

A single **Global Note** represents all of the Eurobonds of a particular tranche of a particular series upon issue. Bondholders hold a beneficial interest in the Global Note in their accounts at various banks.

The **Final Terms** in a Global Note set out the specific terms, including principal amount, coupon, tenor, etc., for an issue. The Terms and Conditions govern how the Eurobonds operate once issued and set out the rights of Bondholders and obligations of the Issuer. The terms also include the "Summary" section extracted from the Base Prospectus.

In addition to the concept of the Global Note, there are some other related terms. **Registered Notes** are Eurobonds whose ownership is evidenced by an entry in a Register kept by the Registrar. In a default scenario or if the Clearing Systems cease operations, bondholders may request that their respective interests be removed from the Global Note and that they be provided with **Definitive Notes**, which are certificates demonstrating their interest. This is most often requested if required for evidentiary purposes in lawsuits. Furthermore, **Bearer Notes** are Eurobonds whose ownership is evidenced by who actually holds the certificate. The latter are generally not used in U.S.$ transactions due to U.S. tax consequences. Finally, some naming refers to the interest structure, such as Floating Rate Notes (FRN), indexed to a LIBOR or another rate, or Zero-Coupon Notes, which are non-interest bearing.

The **Maturity** should be well defined in the terms and conditions, reflecting a "**Bullet**" repayment or **Amortizing** pursuant to a fixed schedule. It should also be clear if an early redemption is allowed at option of either Issuer or the Bondholder

Negative pledge prevents the grant of security for other borrowings and guarantees of such borrowings unless the bonds are secured equally (usually limited to Public External Indebtedness, which broadly means other debt instruments denominated in foreign currency and listed, or capable of being listed, abroad).

In the documentation, **Events of Default** are defined. They could include non-payment of principal or interest, or breach of terms of the Fiscal Agency Agreement. Well-known clauses are also on **Cross Default** or **Cross Acceleration**. The latter refers, for example, to acceleration or non-payment of other debt in excess of U.S.$20 million.

Finally, there can be explicit **Tax Provisions**, such as "gross-up", which means that the international Bondholder is compensated for any new taxation introduced during the life of the bond.

Annex V: Number of New Issues Per Country Per Year Since 2004

Country	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Albania							1					2			3
Angola												1			1
Argentina				1									8	3	12
Armenia										1		1			2
Aruba			1												1
Azerbaijan											3				3
Bahrain													1		1
Barbados		1	1				1								3
Belarus							3	1						2	6
Bolivia									2	1				1	4
Brazil	3	10	4	4	1	3	4	2	2	3	3		2	2	44
Bulgaria									1		1	3	2		7
Cameroon												1			1
Chile							3	2	2		1		4	1	13
Colombia	1	7	2	1	2		2	1	2	2	2	3	1	2	28
Costa Rica									1	2	1	1			5
Cote D'Ivoire												2		2	4
Côte d'Ivoire											1				1
Croatia						2	1	2	1	2	1	1			10
Cyprus	1														1
Czech Republic		1													1
Dominican Republic			1				1	2		2	1	4	2	1	14
Ecuador		1									1	1	2	3	8
Egypt		1					2							6	9
El Salvador	1		2			1		1			1			1	7
Federal Democratic Ethiopia											1				1
Fiji			1					1							2
Gabonese Republic												1			1
Georgia								1							1
Ghana				1						1	1	1	1		5
Guatemala	1								1	1				1	4

HKSAR Government	3														3
Honduras										2					2
Hungary	3	6	2	1		1									13
Indonesia		2	1	1	5	2		1	3	3	5	6	6	3	38
Indonesia (JBIC Guaranteed)									1						1
Indonesia (Sukuk)						1		1		1		1			4
Jamaica	3	2	1		1			1			1	2		2	13
Jordan							1					2		1	4
Jordan (USAID Guaranteed)										1		2			3
Kazakhstan											4	2			6
Kenya											4				4
Korea	1	2	2								4	1			10
Latvia	1														1
Lebanon	7	3	3	1	1	2	1	3	2	2	2		2	3	32
Lithuania			1			1	1	1							4
Macedonia						1					1	1			3
Malaysia Sukuk							1	2				1	1		5
Mongolia									2						2
Mongolia International Bond													1		1
Montenegro							1	1			1	1	1		5
Morocco				1			1		2	2	1				7
Namibia								1				1			2
Nigeria								1		2				1	4
Oman Government International Bond													2		2
Pakistan			2	1							3	1			7
Pakistan Int Sukuk Co		1											1		2
Panama	1	1	2	1	1					2	1	1	1	2	13
Panama (JBIC guaranteed)								1							1
Paraguay										1	1	1	1	1	5
People's China	2														2
Peru	2	3		2		1	3		1		2	3	2		19
Philippines	8	3	4	1	1	3	4	2	2		1		1	1	31
Philippines (JBIC Guaranteed)							2								2
Poland	2	13	1	3		4	5	6	10	4	3	5	9	2	68
Romania					1		1	1	4	3	4	2	3	1	20
Russian Federation							2	2	3	4				2	13

Rwanda										1					1
Senegal						1		1			1			1	4
Serbia								1		2					3
Seychelles			1												1
Slovak Republic	1														1
Slovenia				1											1
South Africa	1		1	1		2	2	2	1	1	2		3		16
Sri Lanka			3	1		1	1	1	1		3	2	1	1	15
State of Israel	1	1													2
Suriname													1		1
Tajikistan														1	1
Tanzania										1					1
Thailand		1	1		3										5
Trinidad and Tobago				1						1			1		3
Tunisia	1	1		1						1		1		1	6
Tunisia (JBIC guaranteed)											1				1
Tunisia (USAID guaranteed sovereign bond)									1		1				2
Turkey	4	5	5	3	2	3	6	1	5	3	2	2	2	3	46
Turkey (JBIC Guaranteed)								2	1		1				4
Turkey (Sukuk)									1	2	1		1		5
Ukraine	1	1	1	1			1		2	1					8
Ukraine (USAID Guaranteed)												1			1
United Mexican States	1	2	1	1		1	4	3	3	5	9	5	6	1	42
United Mexican States - UMS	1														1
United Mexican States (JBIC Guaranteed)							1								1
Uruguay	1	4	4	1		1			1		2	3	2		19
Venezuela	2	2			2										6
Vietnam							1				1				2
Zambia									1		1	1			3
Total	**54**	**74**	**48**	**30**	**20**	**31**	**57**	**48**	**59**	**60**	**81**	**70**	**71**	**52**	**757**