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The Overseas Dollar Issue Market and Recent U.S. Foreign Borrowing

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by

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The issue of U.S. dollar-denominated bonds outside the United States has developed as the major segment of the so-called "international" capital market.[1/] Since early 1963, when the first dollar-denominated bond for a non-U.S. borrower was sold entirely to buyers outside the United States by a Belgian-managed syndicate of banks,[2/] more than $1.6 billion of these issues have been sold to non-U.S. investors. This is roughly 55 per cent of all foreign issues sold in major European financial markets during the period.

During the short history of the international capital market, three major developments stand out as important milestones. The first big expansionary impetus occurred about mid-1963 when London's major merchant banks, with their world-wide contacts, joined the Belgian-Luxembourg underwriting firms in promoting international issues. About the same time announcement of the Interest Equalization Tax in the United States prompted non-U.S. borrowers to turn increasingly to European underwriters and the new breed of international securities for their capital requirements. Thirdly, late in 1965 U.S. borrowers entered the overseas

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1/ Currently the term "international capital market" refers to the practice of selling foreign issues in financial markets outside the United States, mainly in Europe.

2/ In 1962 the International Bank for Reconstruction and Development sold $5 million of dollar bonds in Austria.

capital market on a large scale. American corporations were asked to limit voluntarily their direct-investment capital exports as part of a program to arrest the drain on the U.S. gold supply. Corporations unable to curtail their overseas investment programs were encouraged to borrow the required capital in foreign markets.

American borrowing in foreign capital markets--mostly in the form of dollar-denominated bonds--developed in large volume in late 1965. Since last October public offerings of U.S. dollar bonds in foreign financial markets have averaged $100 million per month; approximately $62 million of these have been issues for U.S. financial subsidiaries.[3/]

The larger volume of new issues put the market under considerable strain. With higher coupon rates and wider discounts, offering yields on recent issues have been at peak levels. Also, numerous decisionshave been made to pare down, postpone or withdraw entirely from the market previously announced offerings.

Several new technical features have been introduced to the market in connection with the American borrowing. Because borrowing costs became so high, many U.S. firms began to offer convertible debentures rather extensively in December 1965. Almost all U.S. issues brought out since late February have had this feature. In addition, borrowers have begun to issue short-term U.S. dollar bonds--5-year and less--rather than the heretofore

3/ In April 1966, however, market congestion became so acute that only $61 million worth of dollar bonds was marketed.

standard 15-20 year bonds. Prices of these shorter maturity bonds are expected to hold up better in the secondary market and, therefore, attract lenders who have hesitated to invest in Euro-dollar bonds because of recent sharp price dips on newly issued securities.4/

The congestion in the overseas capital market produced by American borrowing has also elicited considerable comment from the international investment community in recent weeks, much of it critical of the effects of the American borrowing on interest rates and the availability of funds to non-U.S. borrowers. Some proposals, however, have been made suggesting ways of curbing or spacing out new offerings. Other proposals have suggested ways of enlarging the scope, and hence the drawing power, of the market through the issuance of equities by European holding companies of American firms.

The large volume of negotiable dollar bonds now being handled by financial institutions outside the United States has encouraged development of more adequate secondary market facilities. According to press reports, the First Boston Corporation has established an agency in London to trade in dollar bonds, and Hambros Bank has transferred its foreign bond trading department

4/ The Times (London), April 4, 1966, p. 24. Evidently there is some feeling in European investment circles that in light of the current uncertainty over long-term interest rates in many countries there may be a better market for 2-5 year bonds at the present time.

from London to Zurich in order to be close to the Swiss banks, which have bought for their customers the largest share of the issues sold to date.

Overseas dollar issues prior to 1965

The overseas issue market for long-term U.S. dollar-denominated bonds is the dominant part of a broader international market for long-term financing and investment. The international capital market (as it is known today) had its beginning in the early 1960's when some Continental banks, primarily in Belgium-Luxembourg, started offering issues for nonresident borrowers to an international clientele of investors.[5/] These banks sought to take advantage of the enhanced international investment climate that followed the return of the major European currencies to convertibility and to participate to a greater extent in the very lucrative and growing international underwriting business that was concentrated mostly in New York. They were encouraged by the successful development of the so-called Euro-currency (deposit) money market, and the growing volume of internationally available investment funds.

Early issue techniques. The currency in which an international bond issue--i.e., one sold by a multi-national syndicate to a widely international group of investors--is denominated is very important. Such loans usually carry a maturity of between 15 and 20

5/ Claudio Segré, "Foreign Bond Issues in European Markets," Banca Nazionale del Lavoro Quarterly Review, March 1964, pp. 43-87.

years, and both the borrower and the lender desire a currency of reference which is widely held and regarded as secure.6/ Obviously, the Belgian franc, the domestic currency of the earliest of this "new breed" of international underwriters, was not held widely enough to serve as a monetary yardstick for international loans.

One solution, which emerged in early 1961, is typified by the Portuguese development agency--S.A.C.O.R.--issue which was denominated in the European Unit-of-Account. The exact definition of the unit-of-account may vary from one bond issue to another. In fact, a specific definition is made a part of each bond contract.7/ Generally speaking, the appeal of such bonds lies in the elimination of much of the risk of exchange-rate change. Although the borrower still bears the risk that his own currency may be devalued relative

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6/ See comments of Hans Baer in the Bulletin of Julius Baer and Company, Bankers, Zurich, Number 13, April 1, 1966, p. 2.

7/ The buyer of the bond actually buys an asset whose principal and interest are fixed and payable in terms of units-of-account. Currently the unit-of-account is defined to be equal to 0.88867088 grams of fine gold, which is the U.S. dollar's present par value with respect to gold. Each of the "reference currencies" specified in the bond contract also has a gold value. Thus, the current worth of the unit-of-account in terms of any of the reference currencies may be calculated The holder of the bond may, at his option, demand payment of interest and principal in any one of the reference currencies. The important feature of the technique is that each contract specifies rules for changing the value of the unit-of-account and hence of its counter-value in the several reference currencies. See James C. Ingram, "Unit-of-Account Bonds: Their Meaning and Function," Moorgate and Wall Street (London: Philip Hill, Higginson, Erlangers, Ltd.), Autumn, 1964, pp. 65-80.

to the unit-of-account and the lender runs a somewhat lesser risk that his own currency may be appreciated, changes in the value of other currencies do not affect either the borrower or lender. However, the uninitiated public, as well as the professional traders, have difficulty in interpreting the terms of the loans and some banks have hesitated to participate in such underwritings. Both factors have tended to dampen enthusiasm for this technique.

Another early device was to offer the investor the option of receiving interest and repayment either in Deutsche marks or U.S. dollars and sometimes in other currencies, such as Dutch guilders and Belgian francs.[8/] Although this type of bond may be quite attractive to the investor, the borrower may be hesitant to accept the additional liability that a change in either currency parity would produce. For this reason, the option technique has not been very widely adopted in the international capital market.

The growing role of the dollar. In early 1963 the first U.S. dollar-denominated bond for a non-U.S. borrower was marketed entirely to buyers outside the United States by a Belgian-managed syndicate.[9/] About the same time additional impetus was given to this business by two new factors: (1) London's major merchant banks, with their world-wide contacts, joined with the Belgian-Luxembourg underwriting firms in promoting international issues, and (2) announcement of the Interest Equalization Tax in the

8/ Claudio Segré, op. cit., pp. 57-58.
9/ Ibid., p. 86.

United States prompted non-U.S. borrowers to turn to European underwriters for long-term financing. In the final quarter of 1963 foreign security issues in European markets spurted to $234 million equivalent, compared with an average of $93 million equivalent in each of the three previous quarters.[10/] A large share of this increase was accounted for by U.S. dollar-denominated bonds.

In 1964 and 1965, when offerings of foreign bonds in major financial markets outside the United States grew sharply, dollar-denominated issues rapidly became the favored vehicle for raising funds. Of the $514 million of multi-currency[11/] type bonds floated in 1964, roughly 95 per cent were dollar-denominated. (See Table 1.) In 1965 this share fell slightly due to the increased use of currency options and the introduction of external Deutsche mark issues[12/] and parallel loans.[13/]

10/ C. C. Baker, "Foreign Security Issues in European Markets, 1963-1964," mimeograph, privately circulated, June 16, 1964, p. 4.

11/ The term "multi-currency" refers to unit-of-account issues, bonds denominated in third currencies, issues with currency options and parallel loans sold by internationally organized syndicates. It may be noted that some writers use the term "non-classical" to refer to these new marketing techniques. See the article by Hans Baer cited in footnote 6.

12/ German borrowers offer Deutsche mark-denominated issues in foreign markets in order to attract foreign funds. Foreign investors are discouraged from buying domestic German issues in Germany because of a 25 per cent withholding tax on interest payments to foreigners introduced in March 1965 to discourage nonresident purchases of D-mark bonds.

13/ "Parallel loans" are loans placed simultaneously on different markets and sub-divided into different tranches at different effective yields, each tranche being denominated in the currency of the country where placed. The first such loan was made in July 1965 for ENEL (Ente Nazionale Elettricità), the Italian electricity agency, and was not considered a great success by the European investment community.

Table 1. Foreign Long-term Bonds Issued in Major European Markets, 1961-1965
(millions of U.S. dollars)

	1961	1962	1963	1964	1965
Total foreign issues in European markets 1/	451	291	409	2/913	1,230
Multi-currency type issues 3/	25	10	153	514	781
(per cent of total foreign issues)	(6)	(3)	(37)	(56)	(63)
U.S. dollar-denominated issues 4/	0	5	96	490	5/624
(per cent of multi-currency type issues)	(0)	(50)	(63)	(95)	(80)

1/ Excludes Commonwealth and Sterling Area country issues in the United Kingdom. Markets included in this total are those in: Austria, Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Sweden, Switzerland and the United Kingdom.
2/ Includes $50 million in foreign issues offered in New York but for sale to non-U.S. residents.
3/ I.e., "Unit-of-Account" issues, issues denominated in third currencies, issues with currency options and "parallel loan" issues sold by internationally organized syndicates.
4/ Does not include "dollar option" issues, which have been relatively small in volume.
5/ Does not include $100 million in 2-year notes placed outside the United States by the IBRD.
Source: Compiled from various sources.

Early borrowers. Before U.S. companies began borrowing in the overseas capital market in mid-1965, the largest volume of dollar-denominated bonds was issued by borrowers in the Scandinavian countries and Japan. (See Table 2.) In 1964, the first full year following the application of the IET to borrowings in New York by residents of developed countries, Scandinavian governments, municipalities and businesses borrowed $255 million outside the United States, accounting

Table 2. Issuers of U.S. Dollar Bonds Sold Outside the United States (millions of U.S. dollars)

Borrowing country	1963		1964		1965	
Scandinavia		16 (17%)		255 (52%)		213 (34%)
Denmark	10		122		35	
Norway	6		107		93	
Sweden	0		0		75	
Finland	0		26		10	
Western and Southern Europe		69.5 (72%)		118 (24%)		112 (18%)
Netherlands	0		0		10	
France	0		0		30	
E.E.C.	4.5		55		20	
Italy	15		25		20	
Austria	10		18		12	
Portugal	0		20		0	
Belgium	40		0		20	
British Commonwealth		0 (0%)		0 (0%)		70 (11%)
Australia	0		0		50	
New Zealand	0		0		20	
Japan		10 (10%)		112 (23%)		0 (0%)
Israel		0 (0%)		5 (1%)		0 (0%)
U.S. subsidiaries		0 (0%)		0 (0%)		230.5(37%)
Total		96(100%)		490(100%)		1/625.5(100%)

1/ Includes $57.5 million in private placements for Belgian Telephone Company, Swedish Götaverken and Esso, A.G. (Hamburg).
Source: Compiled from various sources.

for slightly over half the total volume of funds raised through dollar bonds. In 1965 borrowing by Denmark fell sharply when the authorities, as a part of their anti-inflationary program, suspended all new foreign borrowing by municipalities and utilities; but Swedish shipbuilding and electric power firms entered the market for the first time and

Scandinavian borrowers raised $213 million or 34 per cent of the dollar funds borrowed abroad that year.

Japanese borrowers were major participants in the market in 1964, taking $112 million or roughly one-fourth of the funds raised. But no Japanese issues were marketed in 1965. Apparently Japanese borrowers switched from flotations in the U.S. market to overseas dollar markets in 1964, while the Interest Equalization Tax (IET) was pending, but there was less pressure to borrow in Europe in 1965 after Japan had been granted a $100 million quota exemption from the IET. Furthermore, the Japanese recession reduced borrowings abroad. Japanese bonds traded on the London market (which had convertible features) were also adversely affected by the subsequent sell-off of shares on the Tokyo stock exchange.

Borrowers in western and southern European countries played an especially important role during 1963--when dollar-denominated bonds were first issued in foreign markets. The Kingdom of Belgium gave the market impetus by placing $40 million of 3-year Treasury bonds in two different issues during 1963. In fact, the Belgian issue in May 1963 was the first dollar bond issued in the London market in recent years. The $15 million bond for Italian Autostrada in July 1963 was the first non-government loan in London to be made in dollars. Italian government agencies and businesses have continued to borrow in moderate amounts in the overseas dollar issue market.

Foreign borrowing by U.S. corporations

Earlier borrowings. The most recent major development in the foreign issue market was the entrance of U.S. borrowers. In mid-1965 American corporations--confronted by the President's request to limit voluntarily direct-investment capital exports but desirous of continuing their investment programs in foreign countries--turned to raising capital in foreign financial markets. This was the first time that American residents had deliberately sought substantial amounts of capital in foreign security markets since the early years of this century. In the earlier years, however, capital-short U.S. states, municipalities and corporations sold securities abroad to finance domestic expenditures. Today U.S. firms are seeking long-term capital abroad not because they are short of capital for domestic expenditures but in order to proceed with their overseas direct investment programs.

The financing of direct foreign investment from overseas sources is not entirely new to American corporations. Foreign capital has been a substantial source of funds for U.S. firms in recent years in most areas and for most types of businesses.[14/] The volume of direct investment financed abroad in the years 1961-1963 was not only large in absolute terms but was also a significant percentage of the total resources invested overseas by U.S. companies during this period. (See Table 3.) In Western Europe, particularly, there

14/ Andrew F. Brimmer, "Investment Planning, Financing Abroad, and the U.S. Balance of Payments Program," remarks before the New York Society of Security Analysts, July 15, 1965, pp. 9-11.

Table 3. Funds Obtained Abroad by U.S. Companies to Finance Direct Overseas Investment
(billions of U.S. dollars)

	1961		1962		1963	
	Total funds	Obtained abroad Amt. (%)	Total funds	Obtained abroad Amt. (%)	Total funds	Obtained abroad Amt. (%)
All areas	8.2	1.4 (17)	8.7	1.5 (18)	10.3	2.1 (21)
Canada	1.9	.2 (12)	2.1	.3 (15)	2.4	.3 (14)
Europe	2.6	.7 (28)	2.4	.6 (24)	3.2	1.1 (34)
Latin America	1.8	.2 (10)	1.8	.2 (12)	1.9	.1 (8)
Other	2.0	.3 (13)	2.3	.4 (17)	2.8	.6 (20)

Source: U.S. Department of Commerce, Office of Business Economics, Survey of Current Business, October 1964, p. 12.

was very heavy reliance on local funds. In these three years, American firms financed on the average over 28 per cent of their total direct investment with funds obtained locally.

Net sales of shares in foreign subsidiaries of U.S. corporations to foreign stockholders accounted for about 20 to 25 per cent of the total funds raised overseas in 1962-1963. These figures indicate that a large number of U.S. companies have recently sought to meet their needs for foreign investment capital by establishing joint ventures with citizens of the countries in which the direct investment is being made.[15/]

The development of strains in the market. The long-term borrowing which Americans have undertaken abroad in the past ten

15/ Ibid., Table 3.

months at the encouragement of their own authorities has been substantial in volume and has had a significant impact on the fledgling international issues market. These effects were magnified because foreign capital markets were also strained at that time to provide finance for local businesses and governments because of credit restraint in several European countries. The appearance of U.S. firms in the market--particularly with dollar-denominated bonds--has been the major factor expanding the total volume of new dollar issues to new highs. In the final quarter of 1965 and the first quarter of 1966, offerings averaged approximately $100 million per month, compared with a monthly average of about $30 million in the first nine months of 1965. (See Table 4.)

Since the first dollar bond offered outside the United States by a U.S. firm--the American Cyanamid issue in September 1965--financial subsidiaries of American firms have raised $457 million through 25 different publicly offered dollar issues. American borrowers have consistently taken 60 to 65 per cent of the total market volume in every month since October 1965.

As a result of market reaction to the heavier demands of the American borrowing, the flow of new issues has been curtailed sharply since March. In April total issues amounted to only $61 million--all but $10 million for American borrowers.

Numerous factors indicate the extent of the strain the market has been under to meet the increased demand for funds. In January and February coupon rates on most non-U.S. (non-convertible) issues edged higher to a range between 6.25 per cent and 6.50 per cent, compared

Table 4. New Issues of U.S. Dollar-denominated Bonds Publicly Offered Outside the United States, 1964-1966
(millions of U.S. dollars)

	1964	1965	1966
January-March	111.5	85.0	294.5 (185)
April-June	128.5	97.0	101.0*(61*)
July-September	118.0	85.0 (20)	
October-December	132.0	301.5 (188)	
Total	490.0	1/568.5 (208)	395.5*(246*)

() Borrowing by American companies.
* Incomplete.
1/ In addition, $20 million of 5-year notes for the Belgian Telephone Company, $100 million of 2-year notes for the IBRD, $15 million of 12-1/2 year bonds for Swedish Götaverken and $22.5 million of bonds for Esso, A.G. (Hamburg) were privately placed.
Source: Compiled from various sources.

with a general 6 per cent level in October and November, 1965. However, since March no non-convertible issue has been offered with a coupon rate less than 6.50 per cent. Even on convertible U.S. issues, coupon rates moved to 5.00 per cent in late March from the 4.50 per cent rate that previously prevailed.16/

Furthermore, selling prices softened sharply in April, both on convertible and non-convertible issues. For example, W. R. Grace Overseas Development Corporation offered $15 million worth of 5 per cent, 20-year convertible bonds at 98 per cent of par in early April.17/ At this discount, the bonds yielded 5.2 per cent to maturity, the

16/ See Appendix.
17/ Journal of Commerce, March 21, 1966, p. 5.

highest yield ever posted on a convertible issue in this market. Among the non-convertible issues recently marketed, the Government of New Zealand sold a $15 million, 6.5 per cent bond at 96 per cent of par, giving a yield to maturity of 6.88 per cent, again the highest yet posted for a major borrower.[18/]

Also, many issues announced by U.S. firms have either been pared down, postponed until a more propitious time, or withdrawn entirely. Since early March at least four major issues--totaling almost $100 million--that had previously been announced were either postponed indefinitely or canceled. American Radiator and Standard Sanitary Corporation and International Utilities each postponed $15 million issues;[19/] Joy Manufacturing canceled a $15 million issue;[20/] and Chrysler canceled a $50 million issue, one of the largest issues ever announced.[21/] Honeywell reduced a $20 million issue to $15 million in February and in March the International Harvester Company cut a proposed $30 million issue in half.[22/]

American underwriters regain foreign loan business

Until 1965 almost all of the underwriting of these international loan issues was done by Continental and London investment banking houses. In addition, in July 1963, when the proposed Interest

18/ The Wall Street Journal, March 17, 1966, p. 24.
19/ Business Week, March 26, 1966, p. 150.
20/ Joy announced it would market this issue in May but again withdrew it.
21/ The Wall Street Journal, March 17, 1966, p. 24.
22/ The Wall Street Journal, March 23, 1966, p. 25.

Equalization Tax effectively closed the New York market to foreign borrowers, "the first reaction of some foreign issuers was to turn to European houses to manage dollar offerings in the international market and also to make offerings in European currencies."23/

In the course of 1965, however, American underwriting firms centered in New York recaptured much of the business of managing offerings of international issues. According to a report of the Foreign Investment Committee of the Investment Bankers Association, about $500 million in foreign issues of all types were managed in New York during the first eleven months of 1965, compared with only $207 million in the whole of 1964. London's total, on the other hand, decreased from $399 million in 1964 to only $169 million in the first eleven months of 1965.24/

Out of the 30 U.S. dollar-denominated issues marketed overseas by all borrowers during 1965, U.S. houses participated either as heads or co-managers of the underwriting syndicates in 21 (70 per cent) of the cases. On the basis of the dollar volume involved, U.S. houses led syndicates in underwriting $403 million, or 72 per cent, of the market's total volume of $558 million in 1965. American investment bankers had not participated in underwriting any overseas dollar issues in previous years.

23/ From a report of the Foreign Investment Committee of the Investment Bankers Association as reported in The Wall Street Journal, December 3, 1965, p. 8.
24/ Ibid.

In May 1965 New York houses introduced the first Commonwealth government borrower--Australia--to the market, and in July they managed a large overseas dollar issue for the Government of New Zealand. In June two loans for Scandinavian borrowers, previously almost exclusive clients of London houses, were also managed in New York. However, the big swing to New York underwriters got under way when U.S. firms began raising long-term dollars abroad. American borrowers naturally turned to their own investment bankers for assistance in meeting their foreign financing needs. All of the dollar bonds of U.S. borrowers issued in overseas markets to date have been managed by New York underwriters. Since these issues have become the dominant element in the market, the U.S. investment bankers have been getting the predominant share of the overseas underwriting business.[25/]

Recent developments in the secondary market

Both European and American investment bankers have recently been giving increasing attention to developing an adequate secondary market to take advantage of the profits available in trading in Euro-dollar bonds, as well (presumably) as in other internationally traded bonds denominated in other currencies. Almost every bond has been registered, at time of issue, for trading on exchanges either in London or Luxembourg. Many of those offered for U.S. companies--although not exclusively for U.S. borrowers--have also been registered with the Securities and Exchange Commission so that they may be traded

25/ It is difficult to determine on the basis of published information the exact share of each issue underwritten by U.S. houses. However, many market observers consider any issue in which a U.S. underwriter participates as being primarily "underwritten" in New York.

in New York when Americans are once again allowed to invest in foreign securities without having to pay the Interest Equalization Tax. However, in London the secondary market for dollar bonds is relatively thin and is not generally open to U.K. residents. The Luxembourg market is equally thin; in both markets the trading is limited and the spread between bid and offer quotations is generally wider than in the more heavily traded domestic capital markets.[26/]

There is now a relatively large and rapidly growing volume of negotiable dollar bonds outstanding in the hands of residents outside the United States. Since 1962, when the first overseas dollar-denominated bond was issued, dollar bonds valued at more than $1.6 billion have been sold to investors outside the United States.

Many of the firms actively engaged in underwriting the issues feel that a more sophisticated market would make it easier to price new issues and to develop greater interest in the securities on the part of European investors. According to recent press reports, the First Boston Corporation--a large U.S. underwriter--has established an agency in London to trade in dollar bonds, and Hambros Bank, one of London's major merchant banks, has transferred its bond dealing department to Zurich in order to specialize in international bond issues.[27/] This will put Hambros closer to the Swiss banks which have generally been regarded as the largest purchasers of overseas dollar issues, for the accounts of both their domestic and foreign customers.[28/]

26/ The New York Times, February 2, 1966, p. 43.
27/ Ibid.
28/ The Economist (London), January 22, 1966, p. 348.

Other reports have indicated that several other London merchant banks are considering combining to take advantage of the trading opportunities that are developing in these securities.

Prices in the secondary market have also reflected the overabandance of new issues and the apparent imbalance between the supply of, and demand for, U.S. dollar bonds in foreign financial markets. The prices of four foreign government dollar issues traded in London fell sharply between the end of October 1965 and the end of the year, and their average yield increased from 5.84 per cent to 6.10 per cent. (See Table 5.) In late February prices again reached new lows, and the yield climbed to 6.22 per cent where it has since remained.

Influence on European interest rates

To what extent has the rise in interest rates in the international bond market since September 1965 spilled over into domestic European capital markets? The rise in the rates on international dollar bonds seems to be due both to the surge in American issues and to the increasing rates in European markets. (See Table 5.) But it is difficult to find evidence that the larger volume of American borrowing or the higher yield on dollar bonds has had any significant impact on domestic capital markets in any individual European country either by attracting funds or by forcing European borrowers back to domestic markets.

The situation seems to differ from country to country: In the United Kingdom capital markets are insulated from direct foreign

Table 5. Long-term Bond Yields in Major Financial Centers
(per cent per annum)

Date		Euro-$ (London)1/	U.K.2/	Germany	Nether-lands	Switzer-land	U.S.3/
Last Friday of:							
1965 July		5.73	6.79	7.39	5.28	3.92	4.18
August		5.80	6.67	7.40	5.24	3.93	4.25
September		5.79	6.32	7.39	5.18	3.96	4.29
October		5.84	6.36	7.54	5.38	3.96	4.34
November		5.94	6.44	7.50	5.50	3.96	4.35
December		6.10	6.61	7.79	5.58	3.97	4.50
1966 January		6.11	6.56	7.33	5.73	3.90	4.51
February	4	6.13	6.60	7.35	5.80	3.89	4.59
	11	6.16	6.66	7.37	5.79	3.89	4.62
	18	6.16	6.67	7.40	5.78	3.92	4.71
	25	6.22	6.67	7.39	5.79	3.89	4.72
March	4	6.20	6.69	7.46	5.80	3.91	4.79
	11	6.19	6.76	7.56	5.80	3.91	4.72
	18	6.21	6.84	7.81	5.83	3.90	4.68
	25	6.20	6.79	7.81	5.85	3.92	4.60
April	1	6.19	6.75	7.90	5.85	3.93	4.56
	8	6.23	6.79	7.98	5.85	3.93	4.55
	15	6.17	6.77	7.98	5.85	3.93	4.57
	22	6.20	6.80	8.08	5.85	3.91	4.64
	29	6.23	6.80	8.22	5.88	3.93	4.63

1/ The Euro-dollar bond yield cited above is an average of yields to maturity calculated from the prices of four foreign government U.S. dollar-denominated loan issues currently quoted in London. The bonds composing the average are:

a) Kingdom of Denmark, 5-1/2 per cent (1970/84) issued in April 1964;
b) Kingdom of Norway, 5-1/2 per cent (1984) issued in May 1964;
c) Kingdom of Norway, 5-1/2 per cent (1985) issued in March 1965; and
d) Government of Austria, 6 per cent (1979/84) issued in January 1964.

2/ Thursday figure.
3/ Wednesday figure.
Source: Compiled from various sources.

influences by exchange controls. Residents are not allowed to purchase foreign securities unless they acquire the foreign currency resources through the investment dollar pool where the rate has recently been at a very high premium over the free market rate. Also, very few non-sterling area borrowers are currently being admitted to London.29/

In Switzerland, where long-term yields have been stable during the past year, foreign as well as domestic borrowing in the long-term capital market is strictly regulated.30/ There has been some market talk of Swiss resident funds being recently attracted to the higher yields available on Euro-dollar issues, but if this has occurred, it has had no effect on the Swiss bond market.

In the Netherlands increasing yields on long-term bonds since September 1965 have generally paralleled rising rates in the international loan market. However, the impetus would appear to have come primarily from tighter monetary conditions resulting from a heavy domestic demand for investment resources. Again, foreign borrowing in the Netherlands is strictly regulated.31/

In the German capital market conditions tightened considerably earlier than in the international loan market. Again,

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29/ Bank of England, "International Investment: The Role of Security Markets," Quarterly Bulletin, June 1963, pp. 107, 117. Also see, Economic Policies and Practices: A Description and Analysis of Certain European Capital Markets, prepared for the Joint Economic Committee of the U.S. Congress (Washington, D.C.: U.S. Government Printing Office, 1964), pp. 202-268.

30/ Crédit Suisse, Bulletin (Revue Trimestrielle), March 1966, pp. 27-33.

31/ International Monetary Fund, Sixteenth Annual Report on Exchange Restrictions (Washington, D.C., 1965), p. 381.

this was primarily due to domestic factors and does not appear to be related to any surge in American borrowing in Europe. From time to time during the past nine months German commercial banks have found it necessary to strengthen their liquidity positions by readjusting their portfolio holdings of D-mark bonds. These actions have contributed to the sudden sharp surge in German bond yields.32/

Convertible debentures and other technical developments

The strain on the overseas long-term dollar market resulting from increased U.S. demand became apparent very quickly. As early as October 1965, American borrowers were looking for ways to reduce the cost of these relatively high-priced dollar funds by taking advantage of the appeal that "blue ribbon" U.S. corporations have over European borrowers to the foreign investor. Most of the early issues for U.S. firms were non-convertible and carried an interest cost that averaged just under 6 per cent, depending on the credit standing of the borrower; but Monsanto Chemical Company offered the first convertible debenture in October 1965 at an interest cost of only 4.50 per cent.33/

Recourse to convertible debentures. Until mid-December only one of the six issues publicly sold for American companies carried the convertible feature. By late December, after the interest cost for prime American borrowers had risen to 6 per cent

32/ Deutsche Bundesbank, Monthly Report, January 1966, pp. 16-20.
33/ The Wall Street Journal, October 21, 1965, p. 24.

or slightly more, U.S. borrowers began adding the convertible feature to their security offerings in increasing numbers. (See Table 6.)

Since the beginning of 1966, American borrowing has been predominantly in the form of convertible debentures. Approximately 60 per cent of the issues U.S. firms have brought out have had this feature. Until very recently, these issues almost universally carried a 4.50 per cent coupon and were sold at par. Recent demand for funds in the market, however, has necessitated some discounting of these convertibles at their offering. Some observers attribute this weakness to the setback in stock prices in the United States since mid-February as well as to the over-burdened conditions of the international capital market.[34/]

One of the most unique American bond issues using the convertible feature was a $30 million offering in February by two subsidiaries of the International Telephone and Telegraph Corporation. One subsidiary offered $15 million worth of 6 per cent, 20-year sinking fund debentures, and the other subsidiary--a newly formed Luxembourg holding company--sold $15 million of 4.5 per cent convertible debentures. These bonds were then offered to investors in combined units. This split-issue technique allowed the company to mix the advantages of cost-cutting that the convertible debenture carries with the non-equity-diluting advantages of the non-convertible sinking fund bond. It was quite well received on the market.[35/]

34/ See Appendix.
35/ The New York Times, February 25, 1966, p. 40.

Table 6. Long-term Dollar-denominated Convertible Bonds Issued by American Borrowers in Foreign Markets

Period	Total Issues		Convertible Issues			
1965	Amount (millions $)	No. of Issues	Amount (millions $)	(% of Tot.)	No. of Issues	(% of Tot.)
I	0	0	0		0	
II	0	0	0		0	
III	20	1	0	(0)	0	(0)
IV	211	10	110	(52)	4	(40)
1966						
I	185	10	115	(62)	6	(60)
April	41	3	15	(37)	1	(33)

Note: None of the non-dollar bonds issued overseas by American borrowers has been convertible.

Source: Compiled from various sources.

At times non-U.S. borrowers have also used equity-sharing features to attract buyers. Most of the Japanese issues sold in 1963 and 1964 were convertible debentures offered to take advantage of a robust domestic stock market. In July 1964 the Istituto per la Ricostruzione Industriale (Italy) sold a DM/dollar combination issue with 10-year warrants attached that allowed the holder to purchase shares in one of its industrial holding companies.[36/] One of the more successful offerings this year was issued by the Società Generale Immobiliare of Italy. Each of the 15-year bonds in its $15 million issue carried two detachable warrants for the purchase

36/ *The Economist* (London), June 20, 1964, p. 1406.

of shares in the parent company.[37/] The rising Italian stock market made these extremely attractive and has prompted talk of a successor issue of this type.[38/]

Shorter-dated bonds. The technique that has been most recently introduced in the market in an effort to attract a greater volume of funds is the short-dated bond. Continental Oil International Finance Corporation--a subsidiary of the Continental Oil Company--was the first American subsidiary, when it went to market in late April, to raise funds with 5-year promissory notes instead of the usual 15- to 20-year bonds.[39/] In early April the Societé Nationale de Credit à L'Industrie, S.A., of Belgium successfully placed a private issue of 5-year notes,[40/] and on May 9 the Kingdom of Belgium announced that it had privately placed a $20 million issue of 3-year Treasury bonds.[41/] There are indications that a good many of this type of issue are currently planned.

The investment community evidently hopes that short-maturity issues will be better able to hold their prices in the secondary market after the selling syndicate has withdrawn its

37/ The Financial Times (London), January 31, 1966, pp. 10 and 13.

38/ Also, in January the Bank of Italy indicated that it would use any "substantial" additions to official reserves to purchase medium- and long-term foreign securities issued by Italian borrowers. However, it is not known to what extent they made purchases of the two Italian issues marketed since the beginning of 1966.

39/ The Financial Times (London), April 19, 1966, p. 8.

40/ The Economist (London), April 2, 1966, p. 71.

41/ The Wall Street Journal, May 9, 1966, p. 24.

support. It is believed that many potential investors have been hesitant to take positions in the longer-term dollar issues because of the sharp discounts they have recently been experiencing soon after flotation.[42/]

Reactions to U.S. borrowing

The entrance of American firms into the overseas dollar issue market on a large scale and the ensuing congestion it has caused has prompted considerable discussion in the European investment banking community. Some of the public statements have been highly critical of the large volume of American borrowing. Other comments, however, have aimed at making proposals for creating an orderly market and for stimulating and enlarging the scope of the market in order to attract a still greater volume of investor funds.

Proposals to regulate the market. One of the earliest public comments by a European financier voicing dissatisfaction with the impact of U.S. borrowing on the international capital market came from Evelyn de Rothschild, a partner in one of London's major merchant banking firms, who remarked in early December 1965 that U.S. firms "shouldn't rock the boat by swamping the European market with large borrowings."[43/] He spoke at a time when new American loan issues were being announced in rapid succession. Furthermore, the General Electric Corporation had just announced a $50 million issue, and there was some concern in European circles that

42/ The Times (London), April 4, 1966, p. 24.
43/ The Wall Street Journal, December 10, 1965, p. 32.

American firms might tend to come to market with large-volume issues. This, however, has not been the case. Most U.S. issues have been in the $15 to $25 million range, just slightly larger than most non-American corporate issues.

Another criticism of the American rush into the market came from Hambros Bank, a large investment underwriter in London and one of the major participants in the nonresident dollar issue market before U.S. underwriters shifted much of the syndicate-forming business to themselves in mid-1965. In February Hambros observed that U.S. borrowing had pushed the cost of funds up so high that European borrowers were finding it difficult to sell fixed-interest securities without adding an equity conversion right.[44/] Obviously, this is not possible for governmental borrowers.

S. G. Warburg, chairman of another of London's major merchant banks, observed in late March that the anti-American comments which had become common in European investment and business circles were unjustified. He pointed out that U.S. borrowing is "prompted solely by the American balance-of-payments difficulties and that these . . . arise from the immense defence and aid burden carried by the United States. . . ."[45/]

However, Warburg did express the view that the strain on the European capital market by too rapid a succession of issues

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44/ The New York Times, February 21, 1966, p. 63.
45/ The Times (London), March 29, 1966, p. 15.

might cause a breakdown in the market or at least have a disturbing effect on the market's development. To get a better balance between the demand and supply of funds in the market, he suggested that (drawing on the Swiss example) a small committee of European bankers be formed to fix a maximum limit on the size of prospective issues and to arrange an orderly marketing schedule. If the seven or eight major European central banks did not wish to take the responsibility for forming such a committee, he suggested that the Bank of International Settlements might assume the task and serve as an unofficial clearing house.

Dr. P. Krebs, managing director of the Deutsche Bank, Germany's largest commercial bank, has also given his support to some form of regulation of the flow of borrowers through the international capital market. He voiced the opinion in a speech before the London Chamber of Commerce that the high volume of bonds that had been floated in the international market since September 1965 was really beyond the capacity of the market.[46/]

Objections to these proposals. These proposals to regulate borrowing, however, have been the subject of criticism by those who feel that such moves might dampen the competition which has been one of the most important by-products of the development of the international capital market. The Economist, in an article in early April, claimed that the aim of such proposals "would be to spread

46/ The Times (London), March 17, 1966, p. 19.

across international frontiers the kind of informal co-operation in the arrangement and timing of issues that exists in nearly all national money markets, usually through an efficiently working old boy network."[47]

The Economist admitted that the Warburg proposal already had substantial support in the international financial community. But it was skeptical of the suggestion, in part, because "along with its predecessor in short-term money, the Euro-dollar market, . . . it [the international capital market] has cut clear across restrictions in national financial markets."[48] The article considered it a very healthy influence to bring the force of international competition against the national cartel arrangements to which European financial markets are peculiarly subject. Furthermore, the article favored relying on interest rates rather than restrictive agreements to do the job of balancing supply and demand in the international loan market.

The Segré proposal and U.S. holding companies

One of the most interesting suggestions for relieving the current congestion in the Euro-dollar bond market was recently advanced by Claudio Segré, an official of the European Common Market Commission, in a frequently cited article in *Le Monde*.[49] The

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47/ *The Economist* (London), April 2, 1966, pp. 73-74.
48/ *Ibid*.
49/ Claudio Segré, "De Nouvelles Voies Pour Financer les Entreprises Américaines en Europe?," *Le Monde*, March 20-21, 1966, p. 11.

central idea of Segré's proposal is to have American firms attract new funds by forming European-based holding companies to issue stocks in European stock markets.

<u>Luxembourg and Delaware holding companies</u>. The holding companies that the Segré suggestion would require, however, are quite different from those that U.S. firms have been forming in Luxembourg and Delaware to float long-term bonds. These holding companies are established to float bonds and are not, in effect, holding companies in the traditional sense of the word; instead, they are established simply to turn over the funds raised in the foreign markets to the foreign subsidiaries of the U.S. firms that will use them. This is necessary because the interest payments made to investors in these international flotations are paid net of taxes. In order to avoid incurring any tax cost, the U.S. firm must have a borrowing agency in a country where no withholding tax is applicable to the payment of interest to nonresidents. This is the reason the loan cannot be contracted by the American firm itself. If it were, the interest paid to the nonresident investor would be subject to the 30 per cent U.S. withholding tax.

Many European countries also have withholding taxes. In fact, only six countries--the Netherlands, Sweden, Norway, Denmark, Austria and Luxembourg--do not at present impose a withholding tax on interest paid by resident companies to nonresidents.

However, a financial holding company in one of these six European countries is not the only solution to the U.S. problem of raising funds overseas. A Delaware-based corporation may also be used. This is possible because under the U.S. Internal Revenue Code, a U.S. corporation may avoid the necessity of withholding tax from interest paid to non-U.S. residents by establishing to the satisfaction of the authorities that more than 80 per cent of its gross income has been derived from foreign sources for the three taxable years preceding the payment of the interest in question. Since for Delaware-based financial holding companies the only source of income is the interest they earn from lending the funds they have raised on the market to U.S. subsidiaries abroad, the interest they pay to the foreign holders of their bonds is from foreign income and therefore not subject to withholding taxes. The company is not required to report these payments to the revenue service nor are the debenture holders required to file a U.S. tax return because of receipt of such interest.

It does not appear that either the Luxembourg or Delaware holding company has any clear-cut cost advantage over the other. Jean Godeaux of the Banque Lambert in Brussels has estimated that for an issue of moderate size ($10 to $15 million) the initial and recurrent cost (notary fees, printing costs, taxes incident to creating the company, stamp duties on the issued bonds, and annual taxes on the company's outstanding securities) of the Luxembourg company would be roughly 0.2 per cent per annum in addition to the interest costs.[50/] His estimate of the net cost to Delaware subsidiary corporations is slightly less but not enough, he feels, to make any difference to the borrowing company. Where U.S. underwriters are the principal participants in the organizing syndicate, however, they might prefer working within the framework of their own legal system and lean toward the Delaware route.

Godeaux, however, feels that there are some advantages in favor of the Luxembourg holding company when factors other than cost are taken into consideration. The Luxembourg company, for example, is quite free to re-lend and invest the proceeds of its borrowing anywhere in the world without endangering its tax-exempt status. On the other hand, U.S. subsidiary corporations must be careful to keep at least 80 per cent of their income from foreign sources. If at some future date such a corporation wished to invest funds within the United States, even temporarily, its tax-exempt status would be endangered.[51/]

Segré-type holding companies. The holding company formula envisaged in the Segré proposal would require a more fundamental legal reorganization of an American firm's European operations than is necessitated when only financial subsidiaries are formed.[52/] (The

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50/ Jean Godeaux, "Techniques of Financing Multinational Companies through the Issuance of Bonds and Debentures," a speech given before the Common Market Committee of the American Chamber of Commerce in Paris, January 27, 1966, p. 6.

51/ *Ibid.*, p. 7.

52/ Claudio Segré, "De Nouvelles Voies Pour Financer les Entreprises Américaines en Europe?," *op. cit*.

implications of the Segré proposal for operational structure, if any, are not immediately apparent.) The U.S. parent firm would turn over complete control and ownership of all its European operations to a newly formed European-based subsidiary. Then the parent firm would sell a part of the shares of the holding company on the European market, depending on how large a volume of funds it needed to raise, but would presumably maintain at least 51 per cent of the shares, or perhaps a more modest amount if the rest of the shares were widely distributed.

Segré contends that at present there is a dearth of good equity investment opportunities in Europe and that shares in European operations managed by well-known American firms would be very appealing. Furthermore, this method of raising funds would avoid putting American companies in direct competition with traditional users of the European bond markets and would allow them to finance themselves on more favorable terms than they are now able to obtain.

Segré is aware that the U.S. anti-tax haven legislation of 1962 would apparently present some legal obstacles, but he believes that modest modification of these laws is possible without compromising their original objectives.

His plan may also have greater advantages over the debt obligation approach for the U.S. balance of payments. Concern has recently centered around what some observers of the international financial scene believe is a growing shifting of funds from investments in the United States to the very attractive convertible bonds now being offered abroad.[53/] The Economist, which has supported the Segré proposal, suggests that equity shares may be less likely to tempt funds from New York than bonds--particularly convertible bonds guaranteed by U.S. parent companies.[54/] Furthermore, the offer of direct ownership to Europeans in American-managed enterprises in Europe could help to ease concern about the European "invasion" of U.S. capital.

Outlook

Although the demand from American firms for funds is expected to continue to weigh heavily on the overseas long-term dollar issue market during the remainder of 1966 and conditions are expected to continue very tight, many observers believe that costs to the average borrower have gone as high as they can.[55/] Most borrowers are discouraged by the current level of costs--slightly better than 7 per cent--and are not expected to bid the rate up much further by competing for funds. In fact, it is expected that they might turn exclusively to issuing short-term bonds until a time--presumably late summer or early fall--when the market is again receptive to the long-term issues. Under such strained

53/ See, for example, Stanley Wilson, "European Capital Marts May Escape Lethargy," Journal of Commerce, January 24, 1966, p. 1.

54/ The Economist (London), February 26, 1966, p. 828. This gain may, however, be only short run. Even if, as The Economist supposes, there is not as much tendency to arbitrage between foreign and U.S. equities as there is between foreign and domestic U.S. bonds, as long as the international capital market continues tight, borrowers may continue to offer bonds at terms attractive enough to draw funds that are currently invested in the United States.

55/ Jean Godeaux, op. cit., p. 8.

market conditions the larger and better known firms, particularly the American firms, have a decided edge and no doubt will squeeze many other borrowers out of the market.

The demand for funds. At the end of 1965 Manufacturers Hanover Trust Company estimated that U.S. companies would need to raise between $900 million and $1 billion in Europe this year to finance their direct investment programs.[56] This estimate was based on a survey of the planned expenditures of major U.S. companies operating in Europe conducted by the Department of Commerce. Of this total, it was further estimated that approximately $500 million could be expected to be raised in long-term public loans. The remainder would probably be acquired by placing notes or bonds on a private basis and by borrowing from European financial institutions.

It is interesting to note that so far this year American bond issues in foreign markets have totaled $256.5 million, or approximately half of their estimated borrowings for the whole year. Furthermore, roughly $85 million in new issues have been announced by U.S. firms and are in various stages of preparation.

The recently introduced British program to curb capital flows to the industrialized countries of the overseas sterling area could possibly create a new group of borrowers in the

56/ Ira O. Scott, Jr., "Financing U.S. Business in the Common Market," in the Bulletin of the Manufacturers Hanover Trust Company, November-December, 1965.

international capital market. U.K. companies are being asked to postpone, wherever possible, direct investment projects in these countries or to raise the money locally if they must continue with the expenditures.57/ To be allowed to transfer funds from the U.K., every investment project requiring $70,000 or more must be submitted to the Bank of England for approval in line with certain criteria. Some observers in Australia--which could be hard hit by the program--feel that the effect of the restraint on capital from Britain will be to force some British companies to sell shares in their businesses to residents in order to find the funds to maintain their competitive market positions.58/ On the other hand, firms resisting this course of action may well be disposed to try for financing in the international capital market.

The supply of funds. Very little is known about the potential sources of funds that are available to the long-term capital market. Some in the investment community think in terms of a pre-existing pool of foreign dollar holdings available for investment or a continuing flow of dollar income to foreign residents. Godeaux59/ and Segré,60/ however, feel that the market has very little to do with any existing or potential dollar holdings. They feel that, since most important currencies are convertible for investment

57/ The Economist (London), May 7, 1966, pp. 608-609.
58/ Ibid., p. 616.
59/ Jean Godeaux, op. cit., p. 3.
60/ Claudio Segré, "De Nouvelles Voies Pour Financer les Entreprises Américaines en Europe?," op. cit.

purposes, the savings available to the international loan market are the same as those available to domestic markets and are generated in the domestic currency of the subscriber.61/ It may be, therefore, that the actual supply of funds relevant to the Euro-dollar bond market comes from both these sources.

One recent official action does have some bearing on the potential supply of funds to the market. In March 1966 Canadian authorities asked local investors to refrain from buying specifically the new security issues floated in third countries of U.S. companies or their subsidiaries located outside Canada.62/ The action was prompted by concern that Canadian investors might be attracted by the higher yields on these issues, and that liquidation of other U.S. securities might have an adverse effect on the U.S. balance of payments. Also, it acted to conserve Canada's capital for domestic use.

Swiss banks are usually regarded as the biggest supplier of funds to the market, accounting for the disposition of between

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61/ Important exceptions to this are the United States (where the IET discourages residents from buying foreign securities) and the United Kingdom (where exchange controls prevent residents from using sterling to make foreign security purchases) as well as several European countries which limit purchases of foreign-currency assets by residents. However, to the extent that the Godeaux-Segré view is correct, the recent borrowing by U.S. firms may have contributed to tighter conditions in some of the major European capital markets. As was said previously, though, this does not appear to have been the major factor in the European markets that were examined.

62/ The Wall Street Journal, March 17, 1966, p. 22.

one-half and three-quarters of most publicly-offered dollar bonds, usually for the accounts of their widely-dispersed local and foreign customers. Because of a 3 per cent coupon tax on foreign issues underwritten in Switzerland, however, they have thus far not been able to do more than participate as members of the selling group. They have been unable to participate as members of the organizing and underwriting syndicates.

It is expected that the coupon tax will soon be rescinded and that the banks will be allowed to form their own syndicates for international flotations.[63/] The Federal Parliament has already passed a motion to repeal the tax, and January 1, 1967, is considered a likely effective date.

The direct entry of the Swiss banks into the already competitive business of underwriting international flotations could well take business away from British and American houses. However, the effect, if any, of this step on the availability of funds to the market is unclear.

63/ The Times (London), April 19, 1966, p. 15.

APPENDIX

New Bond Issues Publicly Offered Outside the United States by Subsidiaries of U.S. Firms, 1965-1966

	Coupon (%)	Price (%)	Term (yr.)	Amount ($ mil.)	Subsidiary formed in
I. Denominated in U.S. Dollars					
1965					
September					
Cyanamid Int'l Development Corporation	5.75	98.25	15	20	New Jersey
October					
Amoco Oil Holdings, S. A.	5.75	99.50	20	25	Luxembourg
Monsanto Int'l Finance Co. (convertible)	4.50	100.00	20	25	Luxembourg
November					
Esso, A. G. (Hamburg)	(private	placement)		22.5	Germany
W. R. Grace Overseas Development Corp.	5.75	97.75	15	20	Delaware
December					
B. F. Goodrich Int'l Finance Co.	5.75	97.88	17	15	Delaware
Bristol-Myers Int'l Finance Co. (convertible)	4.50	100.00	15	15	Delaware
Owens-Corning Fiberglass Int'l Corp.	5.75	97.55	15	6.5	Delaware
Federated Dep't Stores Int'l Co. (convertible)	4.50	100.00	20	20	Delaware
General Foods Overseas Development Corp.	5.75	98.25	15	12	Delaware
General Electric Overseas Capital Corp. (convertible)	4.25	100.00	20	50	New York

	Coupon (%)	Price (%)	Term (yr.)	Amount ($ mil.)	Subsidiary formed in
1966					
January					
Avon Overseas Capital Corp.	6.25	97.50	15	15	U.S.
Phillips Petroleum Int'l Investment Co.	6.00	98.00	15	25	U.S.
February					
Honeywell Int'l Finance Co., S. A.	6.00	96.00	15	15	Luxembourg
Int'l Standard Electric Corp.	6.00	97.50	20	15	Europe
Int'l Standard Electric Holdings, S. A. (convertible)	4.50	97.50	20	15	Luxembourg
Marathon Int'l Finance Co. (convertible)	4.50	100.00	20	25	U.S.
Warner-Lambert Int'l Capital Corp. (convertible)	4.25	100.00	15	15	U.S.
March					
Pepsico Overseas Corporation (convertible)	4.50	100.00	15	30	U.S.
Clark Equipment Overseas Finance Corp. (convertible)	4.50	100.00	15	15	U.S.
Int'l Harvester Overseas Capital Corp. (convertible)	5.00	100.00	20	15	U.S.
April					
Cincinnati Int'l Finance Corp.	6.25	n.a.	10	6	U.S.
W. R. Grace Overseas Development Corp. (convertible)	5.00	98.00	20	15	U.S.
Continental Oil Int'l Finance Corp.	(placed to yield 6.5 per cent)		5	20	Delaware

	Coupon (%)	Price (%)	Term (yr.)	Amount ($ mil.)	Subsidiary formed in
II. Denominated in other currencies					
1965					
June					
Mobil Oil Holding, S.A. (£/DM)	5.75	97.00	15	28	Luxembourg
July					
Uniroyal Holdings, S.A. (£/DM)	6.00	97.00	15	14	Luxembourg
September					
Transocean Gulf Oil Co. (DM)	5.75	98.50	15	25	Europe
October					
Mobil Oil Holdings, S. A. (Swiss francs)	4.75	n.a.	15	10.5	Luxembourg
November					
DuPont Europa Holdings, S. A. (DM)	6.00	n.a.	15	25	Luxembourg
December					
IBM World Trade Corp. (DM)	6.00	n.a.	15	30	U.S.
1966					
January					
Transocean Gulf Oil Co. (Swiss francs)	5.00	100.00	15	10.5	Europe

TOTAL:

U.S. Dollar Bonds	$457
Other Currency Bonds	143
	$580

Source: Compiled from various sources.