

International
Finance
and
Investment

Multinational
Corporate Banking

Third Edition

edited by Brian Terry



INTERNATIONAL FINANCE AND INVESTMENT

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Edited by
Brian J. Terry FCIB



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Foreword

The team of contributors assembled by the editor, Brian Terry, is representative of the wealth of talent and experience in London's financial institutions. Competition between banks is considerable and they, therefore, require their staff to be able to respond to the demands placed on them. Knowledge and experience are, accordingly, at a premium and, whilst self improvement through job experience will always be necessary, study will continue to be a prerequisite to a successful career.

The Chartered Institute of Bankers is to be applauded for introducing the new examination subject "International Finance and Investment" in 1985/86 (subsequently changed to "Multinational Corporate Finance"). This textbook, unique of its kind inasmuch as it covers comprehensively a breadth of subjects not previously attempted in one publication, will be invaluable to students. It will, additionally, prove to be a very useful reference book to many bankers who have already completed their Banking Examinations but who need to keep abreast of a quickly changing scene.

Banking is one of the oldest and most traditional of industries and any banker who neglects the established, basic principles will do so at his or her cost. However, banking is also one of the most innovative of industries and this book exemplifies each of these facets.

Principles of lending, exposure management, specialised financial packages and capital markets are all part of the armoury of today's commercial or investment banker. Young people entering the industry are, indeed, fortunate that such an interesting and challenging career is ahead of them. They are doubly fortunate that this book is now available to guide them through their formative years and help equip them to become effective decision makers in the years to come.

J W Melbourn, FCIB
Chief Executive
Corporate and Institutional Banking
National Westminster Bank PLC
1986

Editor's Preface to the First Edition

Recognising that many young bankers entering the industry in the 1980s and thereafter would have a career centred on international, rather than domestic, banking The Chartered Institute of Bankers introduced the "International Banking Diploma" as an alternative qualification to the "Banking Diploma" in 1985. One of the new subjects was "International Finance and Investment" with the first examination being held in April 1986. Study was through a pilot scheme available at the City of London Polytechnic. However, with the very broad syllabus on a range of subjects some of which were relatively new, students had to resort to a plethora of textbooks in order to augment the teaching. Indeed, in many cases, textbooks were not available and the best sources of information were the current issues of specialist journals.

As the Chief Examiner for this subject I arranged with The Chartered Institute of Bankers to gather together a selection of experts operating in the City of London and ask them to contribute a chapter, or a number of chapters, on their specialist subjects. This book is the result. Throughout I have had extensive assistance from the officials at the Institute but notably the late Don Fiddes, Robert Rendel, Cindy Dahlin and Alexander Moffatt. My own secretary, Sue Priest, has given me invaluable support. Without the broad experience I have gained with my employers, National Westminster Bank, and the facilities I have been able to use there, I could not have made my contribution to the book.

The book is presented in a style and form which should complement study at classes run by teaching institutions. Alternatively, it will give a structure to students who study on their own. The depth of each subject covered is, necessarily, not definitive. Indeed, each chapter covers a topic which, in itself, merits its own textbook. The objective, therefore, has been to present each subject so that the reader's knowledge is elevated to that of an experienced, practising banker without aspiring to impart knowledge required by an expert or specialist. Undoubtedly, however, knowledge gained from this book will enable individuals to progress to more intensive study of any of the subjects.

It is also expected that the book will appeal to mid-career bankers who need to improve their understanding of financial practices not within their current sphere of activity or experience and others who are not active in the practice of international finance and investment.

As editor I do owe an immense debt of gratitude to all the contributors. They were all carefully chosen for their knowledge, expertise and personal standing in the very demanding international financial markets. I am delighted to be associated with such people and the high quality work which they have produced for me. I also wish to express my thanks to my many colleagues in National Westminster Bank who have given me the benefit of their knowledge and advice.

B J TERRY, FCIB

Chief Examiner, International Finance & Investment,
The Chartered Institute of Bankers

Editor's Preface to the Second Edition

This second edition is being published firstly, because of the success of the first edition, and secondly, because of the events over the past two years which required some of the contents to be updated.

Recently, The Chartered Institute of Bankers has revised its examination structure which has meant that the title of the examination will change as from September 1990 (hence the added sub-title for the book) although there will not be any major changes in the syllabus of this examination subject.

I have, therefore, ensured that changes in the law and/or practice have been incorporated whilst retaining the basic structure of chapters from the first edition.

Wherever possible, the original contributors have updated their chapters but, in some cases, the revision has had to be undertaken by a different specialist than the original author. To all of these people I wish to express my grateful thanks for their help and for maintaining the high level of expertise set by the original publication. Uschi Gubser of The Chartered Institute of Bankers, and Martha Ross, my proof reader, have also displayed the highest degree of professionalism in the publication of this book and I am indebted to them both.

This also gives me the opportunity to thank the many readers who have been kind enough to make complimentary remarks on the first edition of this book. I hope many more readers will be able to enhance their knowledge of this fascinating subject by studying this second edition.

B J TERRY, FCIB

*Chief Examiner, Multinational Corporate Banking,
Finance and Investment,
The Chartered Institute of Bankers*

Editor's Preface to the Third Edition

Inevitably, the many changes we have seen in the inter-relationship between banks and their multinational corporate clients, overlaid with the effects of a worldwide recession followed by a period of low inflation and low interest rates, have obliged me to continue the process of updating this textbook.

Controlling and monitoring bank lending (receiving heightened attention following a period of provisions and write-offs of bad debts) has meant that a re-write of Chapter 3 was necessary. Derivatives and hedging strategies are becoming more extensive and, in some cases, more complicated so the chapters covering these subjects have received special attention. Hopefully, we shall see less need to reschedule sovereign debt so the previous Chapter 13 has been merged with that covering Country Risk Assessment. Similarly, activity in RUF's, NIF's etc. and Auction Rate Preferred Stock is much reduced and these subjects no longer merit the coverage previously accorded to them.

None of the above means that the book has become any smaller, however, as I consider it vital to cover as wide a range of commercial and investment banking services as possible.

I again warmly thank all the contributors for sharing their expertise, Uschi Gubser of the Chartered Institute of Bankers, Martha Ross my proof reader and Jenny Lippett my secretary as without their help I would not have been able to maintain the high standards of content and production of the book.

B. J. Terry FCIB

*Chief Examiner, Multinational Corporate Finance
The Chartered Institute of Bankers*

N.B. During the course of publication the name of the European Community (EC) has been changed to the European Union (EU). References to the EC should, therefore, be interpreted as referring to the EU.

Contributors

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In 1976 he won the Institute gold medal for obtaining first place in the final examinations of the Institute of Chartered Accountants in England and Wales.

He joined National Westminster Bank in 1982, initially to carry out investigations of medium-sized corporates showing signs of distress. He is currently Head of Credit Rating for NatWest Markets, where he is responsible for assessing the credit quality of multinational corporates worldwide.

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He is a Fellow of the Institute of Actuaries and of the Pensions Management Limited. He is co-author of "An Introduction to Institutional Investment", published by Heinemann in 1986, and is currently writing a further book.

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He was the editor of "Energy Finance" published by *Euromoney* in 1983.

Chris Mitchell graduated with a first class honours degree in Banking and Finance from Loughborough University. He joined NatWest Capital Markets in 1989 specialising in Derivative Products and has produced various articles on Risk Management. He is currently an Assistant Director examining and marketing hedging strategies to UK corporates. He is also an Associate of the Chartered Institute of Marketing.

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He moved to NatWest Capital Markets in 1990, where he has responsibility for structuring and distributing primary syndicated debt. This has involved working with a wide range of companies and a wide variety of debt structures including Letters of Credit with embedded Swap structures and Securitisations. He is currently on attachment with NatWest's Primary Syndication team in Hong Kong.

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Eric Warner received his D Phil from Oxford and taught at Cambridge before entering the City. He was with the Swaps group at Security Pacific Hoare Govett before joining NatWest Capital Markets as an Associate Director in 1989. In August 1993 he joined First Chicago as a Vice President.

David Wells is a director of Barclays de Zoete Wedd Capital Markets Limited, part of the London-based investment banking arm of the Barclays Group. He is responsible for marketing within the commercial paper and medium-term note product areas, where he has worked for the last six years. He has a total of 18 years of experience with the Barclays Group in the UK, Africa, the Pacific and France.

John Willingham completed his university education at Jesus College, Cambridge in 1981 with a first class honours degree in Classics. He joined the International Division of National Westminster Bank where he worked successively in UK Corporate Marketing, Aerospace Financing and International Credit. He completed The Chartered Institute of Bankers' Associateship qualification, achieving first place in the September 1984 examinations.

He joined Chemical Bank in 1986, where he worked in the Special Finance Group in London, specialising in Aircraft Finance. In 1988, he joined Sumishin Capital Group in Seattle, USA, the American-Japanese joint venture which specialises in asset based finance, leasing and technical services for the airline industry. He is now Vice President, Marketing in Asia.

He would like to acknowledge with thanks the advice and assistance given to him by Brenda Wagner of Chemical Bank and Max Sinclair of Banque Nationale de Paris in preparing his contribution and to record his appreciation of the efforts of Jenny Wilson in producing the text.

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