

CHAPTER 5

Global Bonds

By the mid-1980s, some staff at the World Bank Treasury had come to believe that structural impediments in the fixed income securities market were hindering the efforts of the World Bank to achieve the quality of yields that its size and financial condition warranted.

One issue was a difference in the World Bank's cost of financing in the Eurobonds market compared with the significantly higher cost in the market for Yankee bonds—foreign bonds denominated in U.S. dollars and issued in the United States by foreign banks and corporations.

"We had become convinced by 1985 or 1986 that we were paying too much to do Yankees and still not getting broad U.S. placement. We had to work out how to develop a real market franchise," Ken Lay, the World Bank's Treasurer from 2006 to 2010 and the mastermind behind the global bond and many other



Statisticians entering data into the database for further processing and analysis. Turkmenistan. Photo © World Bank



"The key thing is to license people in World Bank Treasury to think outside the box and to bring forward new ideas with the understanding that there are going to be many of them that aren't going to work, but the ones that do, can have a big impact."

Ken Lay, World Bank Treasurer, 2006–2010

World Bank Treasury innovations of his time, said in a 2004 interview with the *International Financing Review*. COLTS gave us continuous U.S. presence; in one year we did \$1 billion in more than 1,000 tickets," said Lay. "That gave us the basis for a global approach to begin eliminating the pricing disparity between U.S. and European markets."³⁰

Under Treasurer Eugene Rotberg's supervision, Lay and other World Bank experts began to design a product to address these disparities and came up with a novel method of distributing and trading a new kind of security that came to be known as the "global bond." International Bank for Reconstruction and Development (IBRD) capital markets experts spent about two years analyzing the concept and examining the complex technical barriers that could potentially have blocked such a global financial instrument. One problem they encountered was initial skepticism among underwriters because of the varied conditions and underwriting fees in different geographical areas and markets. Other obstacles

included different systems of organization of investment dealers' businesses and, most importantly, the incompatibility of securities clearance and settlement systems across the various markets.

The World Bank's approach in designing the global bond was to incorporate in a single instrument, features that major market participants valued in fixed income securities. For Euromarket investors, this meant structuring the issue to ensure active trading on London Eurobond desks, settlement through one of the two main European clearing houses of the time, Euroclear and Cedel, and the same tax treatment as the World Bank's tried and tested Euro-dollar bonds. The concept of the global bond was that it would simultaneously settle in multiple clearing systems around the world. In its 1990 annual report, the World Bank said it had devised the format "to permit the full range of international and domestic demand to be reflected in a world price for securities by eliminating

“The World Bank Group and its International Bank for Reconstruction and Development (IBRD) play a crucial role in fighting poverty around the globe. We at Deutsche Bank, feel honored to have contributed to this important mission through a trusted partnership with the World Bank that has grown over more than 25 years.

We look back proudly to joint achievements that mark developmental milestones in the global capital markets. Together, we issued the world’s first ever global bond in September 1989.”

Christian Sewing, Chief Executive Officer, Deutsche Bank AG

impediments to liquid, transregional trading.”³¹ Another aim of the new bond was to provide Euromarket investors with the backstop of solid U.S. domestic market demand by improving the bond’s potential appeal to investors in the United States.

The World Bank’s first global bond was a \$1.5 billion 8% percent ten-year issue, launched in June 1989. It was lead managed by Deutsche Bank and Salomon Brothers, listed on the Luxembourg and New York Stock exchanges, and settled in Euroclear and Fedwire. It was the most actively traded non-government bond in Euroclear in 1989. The global bond had key advantages for investors. It had the IBRD triple-A rating and a large issue size—a typical global bond was \$1 to \$2 billion dollars also cleared through multiple systems and traded in the secondary market on electronic platforms, and it had a geographically diverse investor base across various types of investors. There were other refinements, too. Because of the much larger size of individual [global bonds](#), the World Bank would enter the markets less frequently, so new interest rate hedging mechanisms were put in place.

The World Bank issued its first non-US dollar-denominated global bond in March 1992, and again, Japan was a testing ground. It was a 250 billion Japanese yen 5% percent ten-year issue, lead managed by IBJ International (which later became part of Mizuho), J.P. Morgan Securities, and Nomura Securities. The global bond was intended to provide another trading vehicle and enhanced liquidity to the yen markets. The following year, the World Bank issued global bonds in both U.S. dollars and Deutsche mark. Because of the popularity of the global bond format, public offerings became the dominant form of World Bank borrowing during most of the first half

of the 1990s. Of the \$12.68 billion the World Bank borrowed in fiscal year 1993, for example, 83 percent was in public offerings, of which 59 percent was global bonds.

Global bonds would continue to play a critically important role in the World Bank’s funding program in the years to come. In fiscal year 2017, for example, the World Bank issued \$28.2 billion in global bonds—half of the World Bank’s borrowing program for the year.

Boosting Market Liquidity

There was a boost to liquidity in the markets because the global bond was offered simultaneously in the United States, Europe, and Japan to ensure a broad and diverse investor base. The result was the issue of a bond that was traded on dealers’ most active desks in each time zone as a home-market product. “It was crucial that there be a real book passing between the U.S. and European markets,”³² Lay told the *International Financing Review* in an interview in 2004.

The creation of the global bond did more than anything else to break down the barriers to capital flows and open the way to the boom in issuance that followed in the 1990s. It had a profound impact on the World Bank’s relationship with central banks across the world because many of them preferred the liquidity of this instrument over direct placements with the World Bank. As a result, central bank direct placements, which had been a dominant form of World Bank borrowing during the mid-1970s, became a significantly smaller contributor to the World Bank’s funding program, accounting for just 8 percent of borrowing in 1993.



“If you were involved in international capital markets from the ‘70s throughout the ‘80s, the World Bank was really the principal player. The World Bank continuously developed new structures and issuance techniques in response to changes in the marketplace and to new technologies.”

Donald Roth, World Bank Treasurer, 1988–1992

Donald Roth, the former Chair and Chief Executive of Merrill Lynch Europe who succeeded Eugene Rotberg as Treasurer in 1988, and Jessica Einhorn, who took over from Roth in 1992, served during one of the most innovative periods of development financing history, and all three played a big role in devising and implementing the global bond. Lay, who ended up working for the World Bank for nearly 30 years, including his stint as Treasurer in the challenging years after the 2007 financial crisis, was described by the magazine *Global Capital* as “the architect of the modern bond market.” Lay said, “I’m mindful of the fact that everybody now takes the global bond for granted but it was hugely controversial at the time because of the changes in nitty-gritty stuff like clearing and settlement that you needed to implement to make that work.”³³

Jessica Einhorn was the first female to be appointed Treasurer by the World Bank. A conservative risk manager, she had worked with the Bank for more than a decade and was a familiar face in the world’s capital markets. In 1997, *EuroMoney* magazine included her in its list of the “Top 50 Women in



EuroWeek awards Ken Lay. Photo © World Bank Archives

McDonald's Inspired by World Bank Treasury Swaps Model

In the early 1980s, McDonald's was looking to accelerate the expansion of its fast-food empire around the world and needed sterling for capital investments in property and equipment in Britain, one of its target countries.

While McDonald's had little trouble raising dollars in the United States, where it was treated effectively as a triple-A rated company, differences in its credit rating overseas would mean a big penalty if it sought to access UK pounds directly through a UK bond issue.

“We knew the business would work in England,” recalled Suganne Bishopric, who was McDonald's Director of Financial Markets at the time, so she searched around for alternative ways to raise the overseas currency.

She learned from bankers at Morgan Stanley, who worked closely with the World Bank, of the relatively new international currency swap transactions that the World Bank Treasury had pioneered as a way to access foreign currencies which were either unavailable or could only be acquired at a high cost.

“The World Bank Treasury came up with a very creative product,” said Bishopric, who went on to become Treasurer of the United Nations and then Managing Partner at Global Sovereign Advisors in New York. “I thought, if the World Bank does it, it has a seal of approval.”

McDonald's was the first prominent company to copy the World Bank model and secured a rate that was “almost two points lower using a swap than if we had gone to the market to issue a sterling bond,” Bishopric said. She still keeps the brass “tombstone” recording the deal for the 15,000,000 United Kingdom pound sterling, 10-year “parallel loan” arranged by Morgan Stanley and BNP Paribas, dated April 21, 1983.

Simple “plain vanilla” swaps, like the McDonald's first sterling swap, and more complex versions like interest rate swaps, quickly became the norm in international financing.

Suganne Bishopric, Interview with David Storey, April 19, 2018.

Finance.” The daughter of Jewish refugees from Europe who had settled in New York City, Einhorn embraced the antipoverty mission instilled in the World Bank during the McNamara and Rotberg years. She believed it was crucial to link development to capital markets because only those markets could provide the volume of funds needed to impact development.

In 1995, World Bank Treasury issued its third Deutsche mark global bond and introduced another innovative approach to promote liquidity in the secondary market. It was a 3 billion Deutsche mark (\$2.17 billion equivalent) ten-year issue. The World Bank required a core group of underwriters to agree to be ongoing market makers in the repurchase (“repo”) market for the bonds and postrepo rates on electronic screens, a first for the Deutsche mark market.

Throughout its history, the World Bank had issued various types of structured bonds—primarily callable and zero-coupon bonds. However, structured notes began to provide a significant percentage of the World Bank’s total funding in the mid-1990s. In 1996, the World Bank issued \$2.4 billion of structured notes, or 22 percent of the annual funding program. In the following year, it was \$2.9 billion, or 19 percent of the annual funding program.

Einhorn was succeeded in 1996 by Gary Perlin, a World Bank veteran who oversaw its involvement in dealing with a series of serious global development and market challenges, as well as revamping the World Bank’s financial products line and its capital and liquidity management policies. “In the mid-to late-1990s, it was one emerging market crisis after another and there was a bit of spontaneous combustion and a little bit of contagion from one market to the next,”³⁴ Perlin remarked in his interview for the “World Bank Treasurers Perspective Series,” one of the initiatives in commemorating the 70th anniversary of connecting capital markets to development.

World Bank Treasury’s engagement included arranging an emergency loan for South Korea at a time when it was close to exhausting its reserves. Perlin recalled the extraordinary circumstances of the arrangement. “The Central Bank of Korea was very rapidly coming down to its last reserves and I do recall on one snowy day in Washington, D.C. in December of 1997, almost Christmas, in the morning, the World Bank Board of Directors approved a new financial product that would become available to all borrowers on certain conditions, in the afternoon, they approved the first of those loans—to Korea for \$3 billion dollars—and before the United States Federal Reserve wire closed that afternoon, World Bank Treasury wired \$3 billion dollars to the account of Korea.”³⁵

Like other World Bank beneficiaries before it, such as postwar Japan, South Korea emerged from its crisis as an economic power—growing into the world’s 11th largest economy—and became an important contributor to the International Development Association, the World Bank arm that helps the world’s poorest countries. “I think that’s where the World Bank often is at its best. It’s not just in a crisis, but its standing by its clients and its borrowers to make sure that they rebuild the foundation that allows them to emerge from the crisis stronger than when they went in,”³⁶ Perlin said.

As the 20th century closed, World Bank Treasury continued to broaden its currency diversification through new bond issues. In 1997, it set a record for new currency issuances in a single year, with four—the Slovak koruna, Philippine peso, Korean won, and Polish zloty. This record has been matched only once, in 2009, with first-time issuances that year in Singapore dollars, Nigerian naira, Ghanaian cedi, and Botswana pula. In August 1998, four months before the introduction into general circulation of the euro as the European Union’s single currency, the World Bank issued a 500 million euro 4% percent seven-year bond.

“Being cognizant of the World Bank’s developmental mandate, we are proud to be a leading underwriter of the World Bank bonds in emerging market currencies.”

Bharat Masrani, Group President and Chief Executive Officer, TD Bank Group



Harvesting crops. Korea. Photo © Curt Carnemark / World Bank



70 Tombstones

Connecting Capital Markets to Development
1947 • 2017

<p>International Bank for Reconstruction and Development</p> <p>FIRST NON-US DOLLAR ISSUE</p> <p>June 1, 1948</p> <p>CHF 17 million 2.50% bonds due 1954</p> <p>Placed with</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST EUROPEAN PUBLIC OFFERING</p> <p>May 23, 1951</p> <p>GBP 5 million 3.50% bonds due 1971</p> <p>Syndicate</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST CANADIAN DOLLAR BOND ISSUE</p> <p>February 5, 1952</p> <p>CAD 15 million 4% bonds due 1962</p> <p>Lead Managers</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST US DOLLAR BOND SOLD ENTIRELY OFFSHORE</p> <p>September 20, 1954</p> <p>US\$50 million 2.50% bonds due 1959</p> <p>Lead Managers</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST PUBLIC OFFERING IN THE MIDDLE EAST (KUWAIT)</p> <p>August 14, 1968</p> <p>KWD 15 million 6.50% bonds due 1988</p> <p>Lead Manager</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST EURO GLOBAL BOND</p> <p>May 22, 2007</p> <p>EUR 1.5 billion 4.25% bonds due 2010</p> <p>Lead Managers</p>	<p>International Bank for Reconstruction and Development</p> <p>LAUNCH OF WORLD SUPPORTER FUND (composed of World Bank EM-currency bonds)</p> <p>June 28, 2007</p> <p>Fund Manager</p> <p>Initial Distributor</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST KAURI GLOBAL BOND</p> <p>July 20, 2007</p> <p>NZD 350 million 7.50% bonds due 2014</p> <p>Lead Managers</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST CARBON EMISSION REDUCTION LINKED BONDS</p> <p>June 9, 2008</p> <p>US\$25 million emission reduction linked "Cool Bonds" due 2013</p> <p>Lead Manager</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST GREEN BOND</p> <p>November 12, 2008</p> <p>SEK 2.325 million 3.50% bonds due 2014 <i>Listed on the Luxembourg Stock Exchange</i></p> <p>Lead Manager</p>
<p>International Bank for Reconstruction and Development</p> <p>FIRST PUBLIC OFFERING IN ASIA</p> <p>June 1, 1971</p> <p>JPY 11 billion 7.75% bonds due 1981</p> <p>Lead Manager</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST LOAN FROM A NORTH AMERICAN BANK</p> <p>December 17, 1971</p> <p>CAD 50 million loan due 1975</p> <p>Lender</p>	<p>International Bank for Reconstruction and Development</p> <p>LONGEST NON-USD FRN (99 YEARS)</p> <p>November 21, 1984</p> <p>CAD 100 million FRN due 2083 (45 bps over 91-day Canadian T-bills)</p> <p>Lead Managers</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST PERPETUAL FRN</p> <p>February 15, 1985</p> <p>US\$500 million T-bill-indexed Perpetual FRN</p> <p>Lead Manager</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST SERIAL ZERO COUPON BOND TRANSACTION</p> <p>February 20, 1985</p> <p>US\$1.38 billion bonds due annually through 2015</p> <p>Lead Manager</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST KANGAROO GREEN BOND</p> <p>April 16, 2014</p> <p>AUD 300 million 3.50% bonds due 2019</p> <p>Lead Managers</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST CATASTROPHE BOND</p> <p>June 30, 2014</p> <p>US\$30 million Caribbean catastrophe linked bonds due 2017</p> <p>Lead Manager</p> <p>Advisors</p>	<p>International Bank for Reconstruction and Development</p> <p>LARGEST SINGAPORE DOLLAR BOND</p> <p>August 13, 2014</p> <p>SGD 500 million 1.473% bonds due 2019</p> <p>Lead Manager</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST CHARITABLE SUKUK</p> <p>November 27, 2014</p> <p>US\$500 million Floating Rate Sukuk due 2017 International Finance Facility for Immunisation (World Bank, as Treasury Manager)</p> <p>Lead Managers</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST EURO-DENOMINATED NSV (Namenschuldverschreibungen)</p> <p>February 27, 2015</p> <p>EUR 31 million 1.063% NSV due 2055</p> <p>Lead Manager</p>
<p>International Bank for Reconstruction and Development</p> <p>FIRST SHOGUN BOND</p> <p>August 15, 1985</p> <p>US\$300 million 10.5% bonds due 1995</p> <p>Lead Manager</p> <p>Co-Lead Manager</p>	<p>International Bank for Reconstruction and Development</p> <p>LONGEST JAPANESE YEN LOAN (30 YEARS)</p> <p>December 3, 1986</p> <p>JPY 40 billion 6.20% loan due 2016</p> <p>Lead Manager</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST GLOBAL BOND</p> <p>September 18, 1989</p> <p>US\$1.5 billion 8.375% bonds due 1999</p> <p>Lead Managers</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST JAPANESE YEN GLOBAL BOND</p> <p>March 11, 1992</p> <p>JPY 250 billion 5.25% bonds due 2002</p> <p>Lead Managers</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST DUAL CURRENCY SAMURAI BOND (U.S. Dollar/Japanese Yen)</p> <p>November 18, 1999</p> <p>JPY 10 billion 3% dual currency bonds due 2015</p> <p>Lead Manager</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST PILOT AUCTION FACILITY EMISSION REDUCTIONS NOTES</p> <p>October 7, 2015</p> <p>US\$20.9 million bonds due annually in tranches to 2020</p> <p>Global Agent, Registrar and Settlement Agent</p>	<p>International Bank for Reconstruction and Development</p> <p>CLIMATE OPTIMUM INDEX LINKED GREEN BONDS</p> <p>April 6, 2016</p> <p>US\$50 million Equity Index Linked Green bonds due 2028</p> <p>Lead Manager</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST GREEN SHOGUN BOND</p> <p>June 29, 2016</p> <p>US\$100 million 1.709% bonds due 2018</p> <p>Investor</p> <p>Lead Manager</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST GENDER FOCUSED SUSTAINABLE DEVELOPMENT BOND</p> <p>August 19, 2016</p> <p>INR 206 million 4.82% bonds due 2021</p> <p>Lead Manager</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST MULAN BOND (SDR denominated Chinese domestic bond)</p> <p>September 2, 2016</p> <p>SDR 500 million 0.49% bonds due 2019</p> <p>Lead Bookrunner</p> <p>Co-Bookrunner</p> <p>Joint Lead Underwriters</p>
<p>International Bank for Reconstruction and Development</p> <p>FIRST FULLY INTEGRATED ELECTRONIC BOND</p> <p>January 25, 2000</p> <p>US\$3 billion 7.00% bonds due 2005</p> <p>Lead Manager</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST STERLING INFLATION INDEX LINKED NOTES</p> <p>August 24, 2000</p> <p>GBP 100 million 2.505% Inflation Index Linked notes due 2030</p> <p>Lead Manager</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST ISSUE SOLE LEAD MANAGED BY A JAPANESE REGIONAL BANK</p> <p>June 27, 2005</p> <p>US\$33 million 3.45% bond due 2009</p> <p>Lead Manager</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST MEXICAN PESO GLOBAL BOND</p> <p>March 10, 2006</p> <p>MXN 2 billion 7.56% bonds due 2011</p> <p>Lead Managers</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST TURKISH LIRA GLOBAL BOND</p> <p>April 25, 2007</p> <p>TRY 500 million 13.625% bonds due 2017</p> <p>Lead Managers</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST GREEN BOND ISSUE FOR A CENTRAL BANK</p> <p>November 7, 2016</p> <p>US\$100 million 1.181% bonds due 2019</p> <p>Investor</p> <p>Lead Manager</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST GREEN CALLABLE BENCHMARK</p> <p>November 11, 2016</p> <p>US\$500 million 1.75% bonds due 2021</p> <p>Lead Manager</p> <p>Lead Investor</p>	<p>International Bank for Reconstruction and Development</p> <p>LARGEST EQUITY-LINKED BONDS</p> <p>February 22, 2017</p> <p>JPY 29.8 billion bonds due 2018</p> <p>Lead Manager</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST SUSTAINABLE DEVELOPMENT GOALS (SDG) BONDS</p> <p>March 9, 2017</p> <p>EUR 106.8 million bonds due 2032 EUR 56.8 million bonds due 2037</p> <p>Linked to the Solactive SDG World Index</p> <p>Lead Manager</p>	<p>International Bank for Reconstruction and Development</p> <p>FIRST PANDEMIC BONDS</p> <p>July 7, 2017</p> <p>US\$425 Floating Rate Pandemic Linked Bonds and Swaps due 2020</p> <p>Sole Bookrunner and Structuring Agent</p> <p>Structuring Agent and Co-Manager</p> <p>Co-Manager</p>