FEEDBACK TUTORIAL LETTER

2ND SEMESTER 2019

Assignment 1

International Finance (IFN712S)
Question 1

Do an analysis on what is a Euro Bond Market, types of Euro Bond and what are the pros and cons of Eurobonds

Definition: Euro Bond

A Eurobond is an international bond that is denominated in a currency not native to the country where it is issued.

A Eurobond may be defined as an international bond underwritten by an international syndicate and sold in countries other than the country of the currency in which the issue is denominated. In the Eurobond market, the investor holds a claim directly on the borrower rather than on a financial institution.

Eurobonds are generally issued by corporations and governments needing secure, long-term funds and are sold through a geographically diverse group of banks to investors around the world. Eurobonds are similar to domestic bonds in that they may be issued with fixed or floating interest rates.

Types of Eurobonds

- Straight Bond: Bond is one having a specified interest coupon and a specified maturity date. Straight bonds may be issued with a floating rate of interest. Such bonds may have their interest rate fixed at six-month intervals of a stated margin over the LIBOR for deposits in the currency of the bond. So, in the case of a Eurodollar bond, the interest rate may be based upon LIBOR for Eurodollar deposits.

- Convertible Eurobond: The Eurobond is a bond having a specified interest coupon and maturity date. But, it includes an option for the holder to convert its bonds into an equity share of the company at a conversion price set at the time of issue.

- Medium-term Eurobond: Medium-term Euro notes are shorter-term Eurobonds with maturities ranging from three to eight years. Their issuing procedure is less formal than for large bonds. Interest rates on Euro notes can be fixed or variable. Medium-term Euro-notes are similar to medium-term roll-over Eurodollar credits. The difference is that in the Eurodollar market lenders hold a claim on a bank and not directly on the borrower.
PROS:

General Advantage

- Cost of issue of euro bonds is low which is around 2.5% of face value of the issue
- Eurobonds market offers the bonds with maturities that suits to long term funding requirements
- There exists a sound institutional framework for underwriting, distribution and placing of securities
- Euro bonds are issued in bearer form which enable the investors to evade domestic tax

Advantages to borrowers

- Issuers of Eurobonds have an excellent reputation for credit worthiness
- The size and depth of the market are such that it has the capacity to absorb large and frequent issues.
- The Eurobond market has a freedom and flexibility not found in domestic markets.
- The cost of issue of Eurobonds, around 2.5 percent of the face value of the issue.
- Maturities in the Eurobond market are suited to long-term funding requirements.
- A key feature of the Eurobond market is the development of a sound institutional framework for underwriting, distribution, and the placing of securities.

Advantages to Investors

- Eurobonds are issued in such a form that interest can be paid free of income or withholding taxes of the borrowing countries. Also, the bonds are issued in bearer form and are held outside the country of the investor, enabling the investor to evade domestic income tax.
- Issuers of Eurobonds have a good reputation for creditworthiness.
- A special advantage to borrowers as well as lenders is provided by convertible Eurobonds. Holders of convertible debentures are given an option to exchange their bonds at a fixed price.
- The Eurobond market is active both as a primary and as a secondary market.

CONS

- Lack of control mechanism induces short-term speculative activities
- Less effective national monetary policy due to an open offshore market system
- Inflationary tendencies due to high international liquidity
QUESTION 2

Since the establishment of the World Bank, it has been a main contributor to development of developing countries; Evaluate the roles of the roles World Bank in development

Students should evaluate the role of the Bank around the following key parameters...

The role of the World Bank in development; World Bank is:

- Largest external funder of education in the world
- Largest external funder in the fight against HIV/AIDS
- Supports debt relief to the poorest, most heavily indebted countries
- Largest international funders for biodiversity projects
- Largest development partners
- Help to bring clean water, electricity and transport to poor people
- Plays a larger role in civil society development
- Helps countries emerging from conflict
- Responds to the voices of poor people