INTERNATIONAL BORROWERS IN THE SWISS FRANC BOND MARKET 2021

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International borrowers weigh up virtues and vices of Swiss franc bonds

International borrowers have long had a soft spot for Swiss franc bonds. The market offers a useful source of diversification for foreign issuers, as well as the occasional opportunity for arbitrage.

The environment has changed over the years for international borrowers. An unfortunate cocktail of central bank bond buying, negative interest rates and unpleasant basis swaps has made the market trickier. But despite its difficulties, Swiss franc bonds still attract a diverse crowd of well-rated companies, financials and SSAs from across the globe.

This is perhaps because the Swiss franc market has developed a certain flexibility for borrowers, which is hard to find elsewhere. It can offer awkward tenors that trouble more conventional markets, at smaller sizes that dollar and euro investors struggle with. It has also got a taste for sustainable finance, with a healthy flow of green bonds flooding into the market.

As the market limbers up from the pitfalls of the pandemic, *GlobalCapital* and Credit Suisse brought together a group of borrowers, as well as a prominent Swiss franc bond investor, to discuss Swiss franc debt and the appetite for issuance.

Participants in the roundtable were:

Rula AlQadi, head of group funding, First Abu Dhabi Bank

Angus Cameron, head of funding, Macquarie Group

Christian Grosse Erdmann, head of capital market financing, Deutsche Bahn

Sabeen Munir, director of Swiss franc DCM, Credit Suisse

Wojtek Niebrzydowski, vice-president of global term funding, Canadian Imperial Bank of Commerce

Markus Thöny, head of Swiss fixed income, Lombard Odier

Julio Zamora, chief financial officer, North American Development Bank

Moderator: **Silas Brown**, leveraged finance and private credit editor, *GlobalCapital*

GlobalCapital: Christian, what is your primary purpose for developing a Swiss franc funding profile?

Christian Grosse Erdmann, Deutsche Bahn: In reality, our funding needs are mostly in euros. We have a limited need for Swiss francs which wouldn't justify our activity in Swiss franc bonds. But when we look at the market, we often find the terms are attractive — even after swaps — as there may be a few basis points of savings against other markets.

But also diversification is key. Fortunately, our company has grown over the years in terms of revenue. But it has also grown in debt numbers, as we have invested quite a bit and to a degree suffered from the pandemic and shortfalls in cash flows. We have total debt numbers approaching €30bn, so diversification is very important.

We find that the Swiss market has historically been very friendly to us and positive towards railway companies in general. This may be due to the fact the Swiss have a highly functioning railway system themselves, and they invest quite a lot in it — at least that's my understanding as a foreigner.

The understanding of integrated railway systems is not evenly spread across the world. But in Switzerland it's quite strong, and that allows us to find demand for our offerings.

GlobalCapital: Angus, is diversification your primary incentive to go to the Swiss franc market — or is it more arbitrage?

Angus Cameron, Macquarie Group: Relative pricing certainly comes into play, but I am not sure I would call that arbitrage. We do believe the Swiss franc market offers us diversification. It's an investor base we don't attract through our other core issuance currencies of US dollars, euros and Australian dollars. To Christian's point, it's also a market that understands and supports our credit. We have successfully issued here over many years and been supported throughout.

Pricing has played a part in making it attractive for us to issue. Swiss francs is not a natural currency for us, under our own internal liquidity rules, we would hold a buffer for FX variability, so therefore price has to address that to some extent.

Rula AlQadi
First Abu Dhabi Bank

Rula AlQadi, First Abu Dhabi Bank: I agree with Christian and Angus. It offers us both currency and investor diversification.

When we choose to issue, we consider several factors. Pricing of course is very important. We compare the pricing relative to different funding markets that are available to us. We swap everything back to dollars, so pricing and arbitrage is a consideration when deciding to issue in the Swiss market.

We also look at the certainty of execution, and we usually find that certainty in Swiss francs. We have maintained a presence in the Swiss market, where we have been building our Swiss curve and issuing every year.

We have always found this market very supportive of our credit — our rating and strong credit profile makes us a preferred name from our region. All of this feeds into our decision to issue in the Swiss market.

GlobalCapital: Julio, as well as the question on diversification, how stable has the market been on pricing — are there often opportunities for arbitrage?

Julio Zamora, NADB: Clearly, like for everyone else, for NADB it's a question of relative pricing and taking advantage of your rating. But for us also the tenor is interesting. We do long-term projects, so we issue loans with long duration — the Swiss franc market allows us to match those as well.

On opportunity, we were in the market for a bond last year and we ended up dividing it into two tenors. We took advantage of a little bit of a gap in terms of pricing, which also matched how we wanted our curve to look at the end of the exercise. So we have found it to be a pretty flexible market and found some good opportunities. On the other hand, in the last year, I think the volatility has been a lot greater than we have seen in previous years. Among other considerations, this has kept us a little bit on the sidelines more recently.

Cameron, Macquarie: For us, one of the big advantages of the Swiss market is that it allows for different tenors, so we have been able to fill out our maturity profile. You can go to sevens, eights, nines, 10s — there is no odd tenor. Looking at other markets — the US market in particular — you are limited to threes, fives, sevens and 10s.

GlobalCapital: Wotjek, have you found that the tenors can be quite flexible?

Wojtek Niebrzydowski, CIBC: I agree with what my colleagues have said, but I think there is a bit of an extra twist on our side.

We have been accessing the market over the last 12 years. We don't look at the Swiss market as principally an arbitrage market. Obviously, if when issuing we can realise savings, then that's great. If we sell senior unsecured then our benchmark is usually our domestic market in Canadian dollars. With covered bonds, we actually don't issue in Canadian dollars so the benchmark would most often be to euros or the cheapest to deliver at that time.

What's interesting is most of the time the shorter end doesn't work for us on a cost basis. We are prepared to pay a little bit for funding diversification —perhaps mid-single digits in basis points. But due to negative rates in Switzerland and perhaps some cross-currency basis swap dynamics — since we don't have Swiss franc needs — anything from usually three to five with the odd exception does not work for us.

While our natural funding needs are three to five years, we always thought it was appropriate to extend duration and Swiss francs always enabled us to do that. In this market, you can go to seven, eight, nine or 10 years. So we are extending the duration — but in relatively modest amounts, rather than being beholden to a minimum transaction size of $750m or $1bn in dollars or euros. It is very convenient to issue Sfr250m in longer tenors.

Sabeen Munir
Credit Suisse

Sabeen Munir, Credit Suisse: The point that Wojtek made about size is an important one. The Swiss franc market is smaller compared with the larger markets of dollars and euros. It is potentially comparable to sterling, although sterling transactions can be bigger.

Most companies issuing in Swiss francs don't need to do Sfr1bn, but they often also cannot do that amount. I think that's a double-edged sword, but for the most part it's actually an advantage. Issuers looking for diversification can get that in Swiss francs and they don't have to do very large sizes.

I think Julio might be a good example of a certain type of borrower where the overall funding need in and of itself is not very big. If you go to a bigger market, like the dollar market, and you try to do smaller sizes, you will get penalised for it even if you are a high double-A rated issuer like NADB.

AlQadi, First Abu Dhabi Bank: I agree with Sabeen. We look for markets that can provide us with a longer maturities in the size that suits our balance sheet. We really value markets that can print transactions below $500m equivalent at maturities greater than five years.

In Swiss francs, we can price off-the-run maturities and this is something you can't really do with the rest of the markets. When we want a longer maturity, we typically go into private placement format. We haven't issued 144A yet, but with euros and sterling we see more investor demand and attractive pricing at maturities between three to five years. The Swiss franc market gives us the opportunity to tap six and seven year maturities.

Julio Zamora
North American Development Bank

Zamora, NADB: The size that a borrower can achieve in Swissies fits the size of our balance sheet and the size of our typical issuance. Investors are very focused on ratings and investment grade but willing to go long dated. We also find it's a market where feedback is very good. Very quickly you get a sense of how the market is looking at you and what terms they are willing to look at. We have also issued in Norway and have sold private placements — those tend to be a little more expensive, and the feedback tends to be a little bit more difficult.

GlobalCapital: Sabeen, is the market becoming more flexible — and if not, how can the market become flexible?

Munir, Credit Suisse: The market has grown but obviously we have had years like last year when unfortunately the international segment did not grow.

We are always looking for new issuers. As this panel will corroborate, once you have been to the Swiss franc market you will usually return. It is a very user-friendly market, and offers all the points that were previously made. For us, it's about getting issuers to the market for the first time. The issuer universe is huge and we just need people to come and do it for the first time — but that usually takes a lot of time.

Second, the pricing has to be right. Those dynamics have been challenging recently. We have had very low to negative yields in Swiss francs for the last several years which makes pricing arbitrage and the like difficult. As Markus will tell you, investors don't want negative yields — they generally want positive yields.

Has the market become more flexible? I would say yes. There is more acceptance of different types of credit. For example, bail-in financials have really grown. There are so many jurisdictions — and every jurisdiction has their nuances — and I think investors understand that a lot better today than they did a few years ago.

The market offers a lot of things. But the one thing we always have to try to imagine is finding an opportunity where pricing works for issuers looking for some competitive pricing as well as for investors. That dynamic is simpler in some cases than in others.

Niebrzydowski, CIBC: But if I may jump in here for a second, Sabeen, I substantially agree with what you said about being user-friendly from our angle, but the one thing that perhaps is not so user-friendly is the settlement time. It can take four weeks, which could be problematic if your window of execution is much shorter or you are subject to four months of blackout. Various developments can occur in four weeks between when you price and settle. Some may require additional disclosure, which obviously is not ideal in the middle of a settlement period. But I guess that has been improving, and I have been hearing you can settle as quickly as two weeks — imagine that!

Cameron, Macquarie: That's not what we recently experienced, Wojtek! We have the same observation — certainly a simplification of the documentation would help. To issue we have to do a Swiss wrap over our euro programme that takes time and effort. More recently, there has been some disclosure rule changes, which are somewhat untested. That added an additional level of uncertainty. The long period between pricing and settlement remains an issue.

It's probably worth noting another challenge is that investors are not disclosed. We find engaging with investors can be a little one-way, as you don't know who's buying your bonds. So being able to engage with the investors on an ongoing basis is more challenging. Clearly we get some guidance when investors reach out and want to discuss things with us, but it's not as direct as it could otherwise be.

Angus Cameron
Macquarie Group

The other thing we also find in other markets is it's easier to get a guide as to the price/volume trade off than it is in the Swiss market. We can work out what fair value is, but I couldn't tell you if I pay an extra 5bp how much more volume that would achieve. In the US market I can see where the price breaks are, and that gives me a clear guide to volume that might otherwise be achieved. That isn't something we have seen in Swiss market.

GlobalCapital: Markus, as the only investor on the panel, what would you and other investors like more of in terms of international borrowers?

Markus Thöny, Lombard Odier: It was very interesting to hear people from the other side speak about what their triggers are to tap the market. Interestingly, for us investors, it's often the same reason: we buy international borrowers mainly for diversification. The more issuers we have to choose from, from different regions of the world, the better. But, of course, everything has its limits. As a specialist for actively managed credit portfolios, we are primarily looking at the premium we get for the risk we take, and there it starts to get a little complicated.

If you look at the exposure of foreign issuers within the Swissie market, it has decreased tremendously in the last 10 years. Back in 2012 and 2013, more than 50% of this Swissie bond market consisted of foreign issuers. Now it's about 23%. This has to do with the cross-currency basis swap not really working in favour of a lot of foreign issuers and the fact that the top-rated European banks especially stayed away almost entirely due to the massive bond buying programmes in the euro area.

The Swissie bond market is mainly an institutional market. It's heavily driven by passive investors, and these guys are not very price sensitive.

In terms of tenor, the better the quality, the longer you can issue. Triple-A or double-A rated issuers can easily issue above 10 years. If the credit goes down to single-A or BBB, then it's a bit trickier to tap the market longer than 10 years — their preferred range is between four to 10 years.

To access the Swiss market, it's best to be part of the index where the minimum size is Sfr100m. The typical issue size is something between Sfr200m and Sfr300m but a lot of smaller domestic issuers are often closer to Sfr100m.

GlobalCapital: What would you like to see more of in terms of international borrowers? Who are the ideal candidates?

Thöny, Lombard Odier: As active portfolio managers, we are neither restricted to investment grade, nor to specific sectors or regions. But you have to be aware a lot of investors in the Swissie market need investment grade bonds that are part of the bond indices. If a bond is downgraded to sub-investment grade, a lot of investors will become forced sellers.

As already mentioned, we do not really care about specific regions, but we care about a better diversified market. Recently, we have seen more and more issuance from South and Central America as well as borrowers from Asia. But our top priority remains always to balance the premium we can achieve against the risk we take.

What is becoming increasingly important is the issue of sustainability. We get more and more questions coming from our investors about sustainability. There aren't yet a lot of green bonds in the Swiss market. But if there is a new issue with a green framework, it is often even tighter than the non-green issues of the same issuer.

GlobalCapital: Christian, have you considered issuing green Swiss franc bonds or perhaps even more complex, sustainable structures in the Swiss franc market?

Grosse Erdmann, Deutsche Bahn: We are all on this journey. I believe we were the first issuer, at least in euros, which started issuing its bonds with reference to our corporate green ratings from MSCI, ISS ESG or CDP.

Christian Grosse Erdmann
Deutsche Bahn

We find that this is, at least at the moment, our preferred way. We try to position ourselves as a green issuer. Our belief is that the greenness of the borrower is determined by the left-hand side of the balance sheet, not the right-hand side. It's determined by your operations and by the nature of your investments, so we focus on being a green issuer. As such, we are happy that the Climate Bond Initiative in collaboration with our friends from the Luxembourg Stock Exchange classified us as a climate aligned issuer and admitted all our bonds to the Luxembourg Green Exchange.

We have not issued green use-of-proceeds bonds. We think it's a little bit of an artificial link you are creating between the left-hand and right-hand side of the balance sheet. But we will see what the future brings — there are regulatory initiatives from the European Union coming up and we will see what the future holds.

GlobalCapital: Rula, as someone with past experience of issuing green Swiss francs, what was the process like? Would you consider doing it again?

AlQadi, FAB: We were the first from the MENA region to issue green bonds through our 2017 public US dollar transaction. Since then we have issued green bonds denominated in four different currencies. Green bonds are a priority for FAB and we are always actively looking for new issuance opportunities. When Credit Suisse added the green aspects to the pitch they had previously provided, we immediately saw the value as it opened up a new market and green investor base. We target real green investors, rather than those who are just ticking the box for marketing purposes and we feel that this represents Swiss green investors

We received overwhelming support for our Swiss green issuance in January, in terms of both size and final pricing. We were able to issue the largest CHF denominated green bond by a foreign financial institution. This year we have updated our green bond framework to a sustainable finance framework and are currently focusing on our ESG strategy that we will be sharing with investors during our Analyst and Investor day, which is scheduled for Q4. We look forward to continuing to engage on the topic of sustainability with investors in both the Swiss market as well as our other key international debt markets.

GlobalCapital: Sabeen, as someone with a panoramic view of the market, how much progress has there been on sustainability?

Munir, Credit Suisse: It's a topic we really keep up with. Green bonds, which are only one component of the whole ESG movement, have grown tremendously in the Swiss franc market, and the growth has really emerged in the last two years. Most of the time, you will see more demand for green bonds than regular bonds, which translates into better pricing.

The other thing is that even if a bond does not have a green label, investors are looking at the ESG score — and we are really seeing a pushback from investors for a bad score. I think the ESG rating is almost as important as the credit rating, if not more important in some cases.

We actually see investors like Markus and other institutions pushing back. They say even if the pricing is fair, they cannot buy or cannot buy a big ticket, because the ESG score is low. Beyond this, the development we are going to see at some point is sustainability bonds and social bonds, as well as sustainability-linked bonds.

GlobalCapital: If you chart the progress of sustainable finance in other markets, you see the sprouting of sustainability-linked issuance after green financing. Do you expect the Swiss market to follow the same trajectory?

Munir, Credit Suisse: It's a growing asset class internationally, but in Swiss francs I think there's a limit. It makes sense for issuers that are undergoing some form of transition, but for mainstream issuers it makes more sense to focus on a good ESG score.

Niebrzydowski, CIBC: On CIBC's side, we have issued in social and green — and actually some time ago we mused about issuing green Swiss francs. But I would say the overall size of the market or the ability to issue in size has been a bit of a disadvantage.

There are obviously additional steps and expenses associated with issuing in green format. There is additional disclosure; banks generally issue use of proceeds and there is a requirement to provide third party reporting on an annual basis and provide auditors' opinion. That actually takes time and adds cost to the issuance. So you have to effectively go through that same process while issuing Sfr200m Swiss francs versus issuing €500m or €750m euros.

Thöny, Lombard Odier: Since this year, there have been some ESG bond indices in the Swiss bond market, but the demand so far from the investor side seems quite low. The biggest issue we still have is the data quality for the domestic issuers. Foreign issuers clearly have an advantage in that they provide solid information, whereas some domestic ones are not even aware that they have to disclose some metrics. That's why the whole ESG story in this Swiss bond market so far is still at an early stage and will require a lot of engagement from the investor side.

Markus Thöny
Lombard Odier

But for me, an ESG rating is a kind of status quo figure anyway. There are a lot of different and interesting metrics right now in the whole sustainability discussion. We are not in the camp of excluding companies because they may have a bad carbon footprint today. We are more looking at metrics that take into account a forward-looking approach. Maybe the borrower does not score that great today. But if they are committed to improve in the future, that's the better investment and will have a greater impact on sustainability than just avoiding some names that are scoring badly right now.

GlobalCapital: We have gone quite a long time without mentioning the coronavirus pandemic. Angus, do you think the Swiss franc market looks more or less attractive to you, coming out of the pandemic?

Cameron, Macquarie: Speaking of our region, Australian borrowers have issued in the Swiss franc market for many years, alongside other global markets. I don't think the pandemic has changed the way we think about the Swiss market and the way we think about funding opportunities globally.

What we should be conscious of, though, is that in certain jurisdictions, Australia included, there were packages offered to the banks from the central banks to support continued lending to customers — Australia had a Term Funding Facility — which resulted in the Australian banks not having to access global markets as much as they historically would have.

As the benefits of those types of facilities dissipate, I suspect the Australian banks will look to go back into their core markets, before accessing alternative markets. The Swiss market may not see significant issuance out of Australia in the near term. We like the market and it makes sense from a pricing perspective, so we plan on continuing to build out our curve.

GlobalCapital: Julio, has your funding strategy changed as a consequence of the coronavirus pandemic? Has your view of Swiss francs changed?

Zamora, NADB: No strategy change; actually we issued at the beginning of the pandemic and for us it was very convenient. We had been talking about an issue and we just pushed it through at the beginning of the lockdown. We still look at the market right now, though our funding needs have changed a little bit because our project needs have become much smaller — though still very infrastructure-focused. So we have no need to issue right now, but we are still looking at the market to manage our maturity profile.

Grosse Erdmann, Deutsche Bahn: We are now issuing bigger absolute volumes than before the pandemic. That's partly driven by capital expenditure, but it's also partly driven by Covid and the loss of revenues we have suffered from. Our funding requirements have therefore become bigger. We were very grateful that the Swiss market was there, and we have tapped it twice this year for a total of Sfr700m.

Covid brought with it a lack of travel, which is not just impacting our revenues — but also our roadshow activities. We have a history of spending late afternoons on roadshow visits in Zurich hotels, meeting with the local investment community.

Meetings like these — seeing people's faces, collecting business cards — help you build trust with local investors. This year and last year, we had to resort to electronic formats and a load of investor calls. They were all well organised but it is not the same as sitting around the table and talking about business — but also your family or holiday plans. The credit business is a trust business. As a German issuer, there is a certain physical proximity to Switzerland, which will probably survive even Covid and other disruptions. But there can always be issues, and if you are closer to each other and regularly have physical meetings, you start to get a real connection on both sides.

GlobalCapital: Markus, are you looking forward to face to face meetings with foreign borrowers?

Thöny, Lombard Odier: I agree with Christian. Live meetings and contact is much more appreciated than phone calls. It's a different quality when you have physical roadshows. It's not so important if the borrower comes every year, but if a rarer borrower or a newcomer launches a deal then it's important to get a deeper insight by meeting them and having live discussions.

Munir, Credit Suisse: We often talk about when people are going to get to travel again, or when travelling will become easier. I think there will be a backlog of investor meetings and roadshows — at least I hope we are going to have a backlog!

I hope a lot of issuers will want to come here and meet with investors. I don't think people need to fly around the world for one meeting, every month or every week. But the way we have been able to do this in the past, I think it's something that we all appreciate.

On the point of roadshows and issuers coming from Australia and Canada to Switzerland to meet with investors — it's a win-win for us on the DCM side. On the one hand, we get them to meet the investors and it helps market the credit, but also we get to spend time with our issuer clients — which cannot be substituted for any number of video calls.

So certainly, I'm hoping to see a lot of you in person in Zurich in the not too distant future. We have been able to withstand 18 months of not being able to see our clients in person. But the reason we have been able to withstand that is the good relationships and connections we have been able to establish in the past.

GlobalCapital: Is anyone considering issuing Swiss francs in the not-too-distant future? Angus, as you are a very recent issuer, perhaps that counts you out?

Cameron, Macquarie: What we have found during the pandemic — after the spike in margins —following the significant liquidity that has been injected into the markets, the margins have contracted materially. As an organisation, Macquarie has lengthened the duration of our issuance across both our issuance vehicles. Are we coming again very soon? Well, we have just completed a transaction and that was the first transaction in five years. However, I suspect we won't be waiting five years to enter the market again and would like to continue to build our curve.

In the US and European markets you need to issue quite regularly in order to maintain that market presence and relativity in your primary issuance. That doesn't appear to be the case in the Swiss market. You can be out of the market for a period of time, so long as you maintain some outstanding benchmarks. We have four outstanding benchmarks now, so I think that does afford you the ability to not be as regular as other markets.

Niebrzydowski, CIBC: Last time we were in this Swiss market was April last year. We issued Sfr680m in covered bonds in two tranches. We always look at a variety of opportunities to issue in each of the six currencies in benchmark form. The Bank of Canada pandemic-related support ceased to be active in October of last year, so unlike some other jurisdictions, we rely on our access to funding markets as we historically have done.

Wojtek Niebrzydowski
Canadian Imperial Bank of Commerce

So without getting into specifics, the market is always on the radar. We look at pricing, relative value and when we believe that time is right, we go — whether in bail-in or covereds — so stay tuned.

Munir, Credit Suisse: Regarding the covered bonds that Wojtek was referring to, CIBC actually opened the Swiss franc market, which was shut down for over a week at the start of the coronavirus crisis.

We did two transactions to open the market. One was a domestic covered bond and then, following that, we did the first Sfr100m bond for CIBC. It took three days for us to execute, mainly because of the swap — because the swap market was shot. But CIBC effectively opened the market with the Sfr100m covered bond, and it was followed by a larger Sfr580m covered bond a week later.

Anyway, with international borrowers, I think the market is very much open and we hope that things will remain reasonably stable as far as the macro backdrop is concerned. I think slightly higher rates would be helpful. So I am not opposed to a central bank rates shift.

We do expect to see more issuance between now and the end of the year. I would say all of the funding officials present here would be very welcome — even those who have been to the market recently. With corporates, it's a little bit harder to predict, because they don't always have the funding needs. But I expect to see financials continue to be active as well as SSAs.

AlQadi, FAB: We have found that Swiss bond investors can be less sensitive to market volatility, when compared with other markets. We find that the Swiss market can at times remain open during bouts of short-term volatility while other markets are closed. We consider the Swiss market as a safe haven market, as Swiss investors are more willing to look through market volatility and appreciate our underlying credit.

GlobalCapital: Before we wrap up, does anyone have any final comments?

AlQadi, FAB: Please shorten the settlement period, from all of us here!

Munir, Credit Suisse: The shortest we have ever done is T plus three days. I personally worked on that transaction for BP Capital Markets.

If any one of you wanted to do T plus three, it does come with a little bit of pre-work — but just so you know, it is possible, it has been done and we can do it again!

Rula AlQadi: T plus five, we'll give you two more days.

Niebrzydowski, CIBC: Encouraged by Sabeen, I don't know when but we look forward to meeting with investors in person in Switzerland. GC