

**Market of Monetary and Financial Services**

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**EUROBONDS: EXAMINATION
OF THE ESSENCE OF DEBT INSTRUMENT,
DISPLAY OF THE ISSUER
IN THE FINANCIAL STATEMENTS
AND EXCHANGE DIFFERENCES ACCOUNTING****Abstract**

The peculiarities of determination and financial yield of Eurobonds and the role of this debt instrument in the development of financial and real sector of economy are examined. The questions connected with the accounting records maintenance of Eurobonds and formation of information towards such liabilities in the financial statements of the enterprises – issuers are considered. Propositions concerning improvement of analytical accounting and regulation of Euro issue are offered.

Key words:

Capital markets, securities, Eurobonds, accounting, exchange differences.

JEL: G0.

Problem definition. Over the period of the last decades the dynamic development of the world capital markets is observed. At that the costs are channeled on the investment into the economies of developing countries, to which Ukraine also belongs. Besides it, in the national economy the surplus demand on the borrowing costs, determined by the commodity markets increase, requires the search of reserves of increase in capacity. To satisfy the needs, the enterprises look for the alternative sources of monetary resources one of which is Eurobonds, the volumes of issue of which increase with the years. But in spite of their alternative usage, there is no scientifically grounded approach to the word Eurobonds, the role of Eurobonds in the development of international financial market, peculiarities of Euroloan accounting and display of exchange differences, which predetermine the actuality of the research topic.

In the economic literature the question concerning essence and functional purpose of Eurobonds is highlighted by such economists as V. Slepova, O. Zvonova, L. Chuvakhin. A special attention to the corporative external debt is paid by such native scholars as A. Hrytsenko, T. Unkovska, S. Bukovynskiy, and as Clare A. D, Maras M, Thomas S. H, Bowe M. K. But in spite of the importance of the obtained results, a considerable part concerning the peculiarities of Eurobonds usage and methodology of display of information concerning the transactions with Euroloan in the financial statements still remains undetermined and require further research.

The objective of the article is to examine Eurobonds as the financial debt instrument, to define the peculiarities and advantages of monetary resources involvement and work out propositions concerning display of transactions on issue and service of Euroloans in the financial statements of enterprise.

One of the components of the global financial market is the international capital market, where the demand and supply on the long-term and middle-term financial assets (instruments) are formed. The international capital market includes: international markets of bonds, stocks, and Euromarkets of other financial instruments, which circulate for a period of more than one year [1]. International bonds market includes bonds which are placed at the foreign markets and are sold in the currency of the country-loan holder. In accordance with the Commission Directive 89/2298/EU of April 17, 1989 (hereinafter referred to as – Directive) international bonds are divided into Eurobonds, foreign bonds, global bonds and parallel bonds. Let us analyze the difference among these kinds of debt securities.

Foreign bonds – are securities which are issued and allocated by the issuer in any foreign country in the currency of loan allocation [1]. In the foreign literature we can find such definition of external bonds as internal debt securities denominated in the foreign currency or so called «Heaven & Hell bonds» – with the high level of risk, which follows these transactions, which are realized by the foreign investors.

Foreign bonds are the bonds which are issued at the internal market for the foreign borrowers. Unlike Eurobonds, they are more regulated sideways the country and as a rule are issued through the intermediary of the group of domestic banks.

Eurobonds belong to so called euro-securities, the definition of which can be found in the Directive. In accordance with this document euro-papers include such securities:

- which have passed underwriting and less than two participants of which have registered juridical addresses in different countries;
- are offered in the considerable volumes in one or more countries which differ from the country of issue;
- can be issued by subscription or initially purchased only through intermediary of the credit institution or another financial organization (Directive art. 3, paragraph f).

Eurobonds – issue-grade debt security payable to bearer, which is circulated at the external markets (for the issuers) in the considerable volumes (more than 100 mln. of US dollars) and on the long-term basis, denominated in the currency, which is differ from the national currency of the issuer, and allocated by the international financial institution (investment bank) or group (syndicate) of such institutions [2]. Let us define the principal features of Eurobonds as financial instruments:

1) assignment: serve as a object of purchase-sale at the financial market within the term of their issue;

2) conditions of indebtedness payment: there is no necessity to register such bonds in the depository; belong to the bearer securities.

3) listing: the biggest markets of Eurobonds are the national securities exchanges of London and Luxemburg.

4) taxation: Euro-loans are not the object of taxation and mostly are regulated by the country.

Thus the main difference between the Eurobonds and foreign debt securities are the methods and geography of allocation: foreign bonds are quoted at the market of one country, at the same time when the Euro-loans are offered at

the financial markets of several countries. Besides it, Eurobonds are off-exchange character of circulation.

Analysis of the domestic and foreign literature helps us to define separate kinds of Eurobonds in accordance with the conditions of their issue and service (Table 1).

Table 1

Kinds of Eurobonds

Direct	With the fixed interest rate with the fixed amount of payments
FRNs/VRNs	Bonds with fixed interest rate / variable interest rate. Interest rate is fixed as an increment to the rate LIBOR. Sometimes the profitableness on US treasury bills. Interest income is paid at the end of the each interest period.
Junior issue	Unsecured Euroloans which in case of liquidation are returned to the investor after the redemption of all claims of other creditors.
Eurobonds with provision	Eurobonds, bonus/discount, which are defined on the basis of the assets analysis, which serve as their provision.
Converted	Eurobonds, which can be converted into stocks in accordance with the previously determined price.

The issue of Eurobonds as a means of mobilization of the long-term financing provides lots of opportunities for the borrower, which can not be obtained only at the internal market of the loan fund capital:

- dissemination of information on issuer at the international markets in the course of advertizing company and within the whole term of the securities circulation;
- flexibility of the instrument and wide range of investors;
- compulsive assignment of a credit rating to the issuer by the foreign rating agency;
- juridical flexibility of the instrument towards Ukrainian legislation, formation of the flexible taxation policy;
- much less expenditures and lead time for the next inaugural issue of emissions in comparison with the other kinds of bonds [3].

The preconditions for the bond market entry is realization of the credit rating of from one of the well-known rating agencies (for example, «Standard & Poors» or «Moody's Investor's Service»), which is very important, inasmuch as the level of rating defines the ability of the issuer in due time to settle with the debt obligations as well as the risks of investors while their own cost investing.

Taking into consideration the prospectively of the financial instrument only in 2011, 6 domestic companies allocated their bonds at the international markets amounting from 43 to 750 mln. of US dollars (Table 2). Two corporations are expected to issue the Eurobonds in 2012 as a part of the strategy development.

Table 2

Domestic companies, which issued Eurobonds in 2011 році [4]

Company	Date of allocation, (2011)	Volumes of the external funds, US dollars	Conditions (interest rate, terms)	Organizers
Ukreksimbank	January, 28	300 mln of UAH	11 % per annum, 3 years	Credit Suisse, Citigroup Inc., and Deutsche Bank
Metinvest	February, 7	750 mln of UAH	9% per annum, 7 years	Credit Suisse, Deutsche Bank, ING Bank, Royal Bank of Scotland and VTBCapital
Sberbank	March, 1	500 mln of UAH	8,25% per annum, 5 years	Credit Suisse and Morgan Stanley
Mriia Agro-holding	March, 25	250 mln of UAH	10,95% per annum, 5 years	Bank of America Merrill Lynch, RBS, UBS Investment Bank, Drahon Capital
Ferrexpo	March, 31	500 mln of UAH	7,875% per annum, 5 years	J.P.Morgan, Morgan Stanley and UBS
Fininpro (Financing of infrastructure projects)	April, 18	690 mln of UAH	7,4% per annum, 7 years	Morgan Stanley Int. and VTB Capital

Activity of the Ukrainian companies at the international markets of debt securities shows the necessity of work out of corresponding accounting provision of issuing transactions aimed at adequate display of information about the economic activity in the financial statements.

The main normative acts which determine the order of display of international bonds in the financial statements of the enterprises is the Law of Ukraine «On securities and stock exchanges», Provisions (accounting standards) 11 «Liabilities» and Provisions (accounting standards) 13 «Financial instruments». Nevertheless, there is no clear definition of the word «Eurobonds» in the domestic legislation and as well as methodology of their accounting. On our opinion, the approach to the acknowledgement of Eurobonds on the basis of the methodology of bonds' maintaining of records is the most optimal, taking into consideration the peculiarities of capital markets.

The issues of debt securities can be realized by means of the direct issue or applying the mediate schemes. In case of direct euroissue, the final recipient from the Eurobonds allocation is the same person, which bears responsibility for the calculations with the foreign investors on Eurobonds. What about the mediate schemes of euro issues? Such issue can be realized through the intermediary of the corporate structure, specially made for that purpose or banking [5, p. 27].

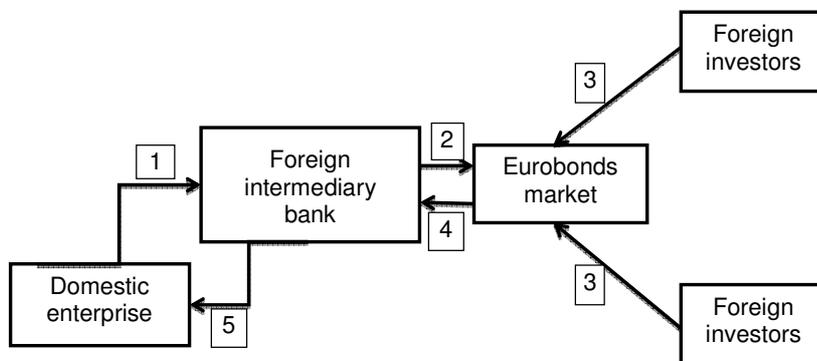
In accordance with the domestic legislation corporate issuers are limited in bonds issue, denominated in the foreign currency [3]. As a conclusion, Ukrainian companies can apply only mediate schemes of Eurobonds issue as it is depicted on the figure 1.

Multigrade process of issue and service of Eurobonds complicates the methodology of determination of the objects of their accounting and display of credit transactions of such type in the financial statements, which shows the necessity of the more detailed research of these questions.

In accordance with the conducted analysis, the objects of the Eurobonds accounting should be separated. They are: liabilities on the long-term credits before the foreign intermediary banks, at the Eurobonds market and credit relations on the long-term bonds, liabilities on interests payment, expenditures for the securities allocation, incomes (expenditures) while the discount amortization (bonus), results of the display of international transactions in the balance-sheet total, which cause the emergence of exchange differences.

As it was mentioned above, in accordance with the law in force, the domestic enterprises are limited in the Eurobonds issue. They use intermediary structures, which conduct the issue of such securities from their own name. By means of the mechanism of the mechanism of debt relations the enterprises become indirect obligors, paying a commission to the financial institution as interest from the amount of the realized Eurobonds.

Figure 1

Process of Eurobonds issue by the domestic enterprises

- 1 – Enterprise submits a request and prospect of Eurobonds issue to the foreign intermediary bank.
- 2 – Intermediary bank realizes Eurobonds issue in its own name.
- 3 – Purchase of Eurobonds .
- 4 – Intermediary bank receives costs from the Eurobonds allocation for their further transformation into the credit for the Ukrainian enterprises.
- 5 – Conversion of the received costs on the credit account of the enterprise, opened in the intermediary bank.

Taking into consideration the long-term character of monetary resources involvement at the Euromarket, in order to account Eurobonds, we use the account 52 «Long-term liabilities on bonds», which has such sub-accounts:

521 «Liabilities on bonds»

522 «Bonus on issued bonds»

523 «Discount on issued bonds»

In accordance with the credit of the sub-account 521 «Liabilities on bonds» the accounting of the debt liabilities on notional value of bonds is maintained, on debit – redemption of debts on calculations with the bondholders.

In accordance with the credit of sub-amount 522 «Bonus on issued bonds» the accounting of the received bonuses (appreciation of the value of sale of bonds over its notional value) is maintained on issued bonds, on debit – amortization of bonus with the acknowledgement of the financial income.

In accordance with the debit of the sub-account 523 «Discount on issued bonds» the accounting of the rendered discount (excess of the notional value of

bonds over the value of its sale) is maintained on issued bonds, on credit – amortization of discount with the acknowledgement of the financial expenditures [6].

Considering the conditions of the implementation of transactions with Eurobonds, correspondence of accounts looks as follows:

№	Nature of the economic operation	Correspondence of accounts	
1.	Receiving of the amount of credit from the syndicate of the foreign banks	314	502
2.	Commission remuneration for the intermediary bank is included to the expenditures	952	685
3.	Restructuring of the long-term loan into the bonded one	502, 523	521, 521
4.	The amount of indebtedness on interests, accrued on Eurobonds (for the period) is indicated	951	684
5.	The amount of expenditures on interests for the Eurobonds is channeled on the reduction of the financial result	792	951
6.	Costs on the purchase of the foreign currency in order to redeem the interest liabilities are transferred	334	311
7.	Bank commission is paid	685	311
8.	The amount of the paid-up bank commission services is included to the enterprise's expenditures	92	651
9.	The amount of the pension duty is paid	651	311
10.	The amount of the paid-up pension duty is included into the enterprise's expenditures	92	651
11.	The currency to the account in the foreign bank on the official rate of the National Bank of Ukraine is credited	314	334
12.	The amount of the exchange difference, which is equal to the difference between the unofficial rate and rate of the National Bank of Ukraine, which was in effect at the moment of crediting of currency into the account, is indicated	974	334
13.	Interest indebtedness is paid	684	314
14.	The amount of the exchange difference which is equal to the difference between the rate which was in effect at the moment of calculation of interests and the rate which was in effect at the moment of interests' redemption, is presented	974	521
15.	Enterprise expenditures are written off on the financial result	792	974

№	Nature of the economic operation	Correspondence of accounts	
16.	Amortization of bonus (discount)	952	522
17.	Long-term Eurobond liability is transferred into current	521	612
18.	Eurobond liabilities are paid	612	314
19.	Amount of the exchange difference between the rate which was in effect at the moment of Euroloan raising and rate which was in effect at the moment of indebtedness redemption is presented.	974	612

It is supposed that analytical accounting of the debt securities, issued for the realization at the internal market should be maintained at the analytical account 5211, at the international capital market at the analytical account 5212 with the specification concerning types of bonds (foreign bonds and Eurobonds) on the basis of the above noted differences.

Specification of the volumes of transactions with Eurobonds is necessary for the internal use aimed at proper management of the securities portfolio and determination of the volumes of demand on the bonds of corporations at the external markets. Sub-account 612 «Current indebtedness on the long-term liabilities in the foreign currency» is dealing with the accounting of the different kinds of debt instruments. Taking into consideration the above mentioned, the analytical accounts which will display the information about the separate methods of resources involvement (6121 – credits, 6122 – international bonds) should be opened, with the specification of the kinds of such securities in accordance with the conditions of issue and service. Accounts of the costs accounting, current and long-term liabilities belongs to the monetary items, therefore the definition of the exchange differences is conducted as of the payments settlement and as of balance in accordance with provisions (standards) of accounting 21. Considering the above noted, it is recommended to show the exchange differences as a part of incomes (expenditures) from the non-operating exchange differences at such stages of Eurodebt service:

- 1) under the redemption of indebtedness on the accrued interests for the costs utilization;
- 2) under the bond obligations payment;
- 3) under reflection of the difference between the rate at the moment of loan raising and the date of its redemption.

Analytical accounting of such transactions improves the process exchange differences accounting. We offer to open the additional accounts 7441 «Income from the non-operating exchange differences on debt securities» / 9471 «Expen-

ditures from non-operating exchange differences on debt securities» with the specification according to the kinds of financial instruments, issuer, kinds of currency, in which the securities are denominated.

Therefore, the obtained results help us to define the following conclusions:

1. In order to receive resources, the domestic enterprises use the possibilities of external capital markets by means of different financial instruments. At that, one of the most convenient means of cost involvement in the considerable volumes and under the profitable conditions are Eurobonds.

2. Eurobonds belong to the debt securities, which are issued in the considerable volumes and in different currencies through the syndicate in the countries, which differ from that, where the issuers are registered.

3. As of today, the proper accounting-analytical provision of Eurobonds issue is not formed, requiring the introduction of alterations in the legislative acts of business accounting, working out of improvement mechanism of display of information on Euroloans transactions in the financial statements, defining the directions of the further research.

4. On our opinion, at the enterprises, which involve costs by means of bonds issue, the attention should be paid to the accounts of analytical accounting aimed at better informativity concerning money flows according to these liabilities.

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