THE LONDON STOCK EXCHANGE AND THE EARLY EMERGENCE OF SOVEREIGN DEBT COLLECTIVE ACTION CLAUSES IN THE 19TH CENTURY (1827-1868)

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ABSTRACT

This paper unpacks the operation of foreign debt bondholder committees before the rise of the British Corporation of Foreign Bondholders (CFB) in 1868. I argue that many ideas about this period need to be revisited. In particular, my evidence (which uses archival work to describe market microstructures) shows the importance of the London Stock Exchange as a Court of Arbitration. I show how this created incentives for bondholders to get organized. Previous models and formal analyses need to be recast.

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Along with the Gold Standard, the British Corporation of Foreign Bondholders (CFB) created in London in 1868 features in the select league of deceased historical institutions that have attracted considerable interest including calls to resuscitate them.[1] Theoretical arguments suggest the actions of bondholders to be hampered by rampant free riding making sovereign default easy. Coordination costs make collective action and punishment (for instance in the shape of a credit embargo) problematic. As a result, some form of intervention or mechanism aimed at combining bondholders and keeping them together would be desirable. [2]

In a series of seminal articles published a quarter of a century ago, economists Eichengreen and Portes felt that they could read these intuitions in the historical experience of the CFB.[3] They portray the CFB as a kind of benchmark for successful bondholder coordination: Owing to rampant free riding and conflicts of interest the foreign debt market would have been a world corrupted by conflicts of interest and always at the mercy of prodigals and projectors. Only bondholder groups could offer an islet of sanity. Eichengreen and Portes have opened a tradition to use the CFB to gauge other experiences. They looked at the New York market in the 1920s as one of competing and disorganized bondholder groupings that "could not bring the same pressure to bear as so august an institution as the [CFB]… Rivalry among competing committees undermined the credibility of each […] Not only did this encourage committees and their agents to make extravagant promises, but a debtor government was faced with the problem of determining which committee best represented its creditors".[4]

This reading of the experience with bondholders' committees was turned into a policy lesson. Just like the New York market for foreign government debt eventually had to grow its own CFB in the shape of the Foreign Bondholders Protective Council (FBPC) established

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[1] The organization that came into existence after the initial discussion of 1868 was known as the Corporation of Foreign Bondholders. It is sometimes abbreviated as CFB (e.g. Mauro et al. 2006) or as CFBH (e.g. Eichengreen and Portes 1989a). The Corporation had a governing board, or Council, and the Corporation's official annual *Reports*, started after 1873, are titled *Report of the Council of the Corporation of Foreign Bondholders*. Eichengreen and Portes (1986, pp. 621-2) argue that the Corporation of Foreign Bondholders was known less formally as the "British Council". In discussions within the London Stock Exchange Committee, I have indeed found, as early as in 1870, members of the Stock Exchange addressing bondholders' representatives using the expression "your Council". In this article I adopt the simplest convention and refer uniformly to the Corporation and CFB. When I refer to the CFB's governing body I use the wording "Council".

[2] Bulow and Rogoff (1989a) and (1989b); See Schultz and Weingast (2003) for a similar statement in political science. An (incomplete) list of theoretical challenges include Kletzer and Wright (2000), Wright (2001) and Tomz (2007) for a political science critique.

[3] Eichengreen and Portes (1986, 1989, 2000), Eichengreen and Werley (1988); Portes 2004;

[4] Eichengreen and Portes (1986, p. 622); Likewise, from Borchard (a classic authority on the matter) we read that prior to 1868 "British holders of foreign bonds … had no recognized means of organization for the protection of their interests…" (Borchard 1951, p. 203); Other works emphasizing conflicts of interest bondholders include Feis (1930), Wynne (1951), and more recently Aggarwal (1996), Barth (1995), and Schaefer (1993); Recent economists who have played down predecessors to the CFB include Mauro, Sussman and Yafeh (2006), Wright (2002, 2004).

1933, today's world could be improved significantly with the (re-)creation of the CFB. This is what Richard Portes called the "old new" institutional framework for monitoring foreign debts – old new, because indeed the new set up would not look "unlike the previous CFB". [5] Such a committee would permit to coordinate creditors as CFB's unified structure had. It would help disseminate information on borrowers as the CFB's *Reports* and library had. It would help with lobbying policy makers as the CFB had with the Foreign Office. It would be a relevant part of the incentives to undertake orderly workouts, as the CFB was with its ability to restore market access for cooperating debtors.

This view of the role of committees is part of an ongoing debate about modern options for reforming and improving the "international financial architecture": Either the "market" approach to sovereign debt, championed by Eichengreen and Portes or the alternative "statutory" approach to sovereign debt restructuring which others have favoured, encouraging instead the creation of an international bankruptcy code etc. (e.g. Bolton 2003, Bolton and Skeel 2005, 2007). The market approach by Eichengreen and Portes was carried one stage further when they took up the idea of Collective Actions Clauses grafted to debt contracts (Eichengreen and Portes 2000). Because CAC dilute the vote of minority bondholders, they would prevent hold-out and would contribute effective "market driven" restructurings, essentially replicating what the CFB was doing.[6]

One concern I have with the new view, however is that, early on, supporters of the CFB used precisely the Eichengreen and Portes argument to motivate its creation. Take for instance this 1951 article by one Alexander Behr, devoted to Isidor Gerstenberg, the chief promoter of the Corporation of Foreign Bondholders and which draws almost exclusively on Gertsenberg's own propaganda. The language of the resulting *laudation* is nothing but an anticipation of the "modern view": "Before the formation of the Council [the governing body of the Corporation of Foreign Bondholders], defaults were dealt with by *ad hoc* committees of the Stock Exchange, but their efforts often proved inadequate and they were not sufficiently influential to bring pressure to bear on foreign governments which had failed to meet their obligations to pay capital or interest. The formation of the Council was therefore a turning point in the history of finance in this country. [Gerstenberg had a…] natural impulse to act in

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[5] Portes (2004, p. 13) would have a permanent "but 'light'" bondholders' committee that would "oversee bondholders' negotiations with the debtor. And because it would be dealing with all bondholders in simultaneous negotiations under the same umbrella, this institution would go some way towards coping with the aggregation problem".

[6] For a recent discussion and critical perspective on Collective Action Clauses see Panizza, Sturznegger and Zettelmeyer (2000) and Gelpern and Gulati (2010) as well as the articles to which Gelpern and Gulati is a foreword.

the public interest, [he] was determined to bring order where there was chaos”.[7] In a bout of enthusiasm Behr tells the story (which he also lifts from Gerstenberg) of California being offered in the 1840s by Mexico to its British creditors, but the creditors’ divisions would have resulted in Britain losing the Golden State (“even Hollywood would have been British”).[8] This, ostensibly, is also the Eichengreen and Portes reading (except of course for the part on California).[9] In other words, economists have rightly emphasized the many conflicts of interests that mar the operation of foreign debt markets but the desire of the CFB to posture as the defender of widows and little children was not the smallest of them all.

In fact, the claim that bondholding would be undermined by free riding is easily recognizable. It belongs to a family of arguments identified and criticized long ago by Ronald Coase in his discussion of the history of lighthouses (Coase 1974). While a “public economics” focus on free riding and the under-provision of public goods resulting in the need for some form of government support), Coase noticed that lighthouses were rarely built by benevolent governments and shows moreover that they were built. Coase concludes that the experience of lighthouses suggests that history might frequently reveal some surprises. Likewise, as I discovered, actual evidence regarding the operation of bondholder groups contradicts the conventional view. I came across this striking (and troubling) fact as I tracked *The Times digital archive 1785-1985* searching for evidence on the composition of bondholder committees. This yielded a significant discovery: For the period 1845 to 1868 when there were many bondholder meetings making announcements in the press and permitting to see what was happening, an overwhelming majority of committee members were found in more than one committee. There may have been occasional fights, but they are dwarfed by the importance of the system of interlocking bondholders’ committees which I had identified. This finding did not square with the conventional narrative of the destitute bondholder (a widow or child) waiting until 1868 to see Mr Gerstenberg addressing her longtime concerns.

In this article, I deconstruct the myth of the powerless bondholder in need of the CFB to attend to its collective action problem. This is done the way historians do, using archive. In particular, I have relied on material from the Stock Exchange Committee where, as I shall argue, one has to look in order to understand the operation of bondholder groups and their

[7] Behr (1951), p. 207
[8] Behr, (1951), p. 210. Gerstenberg (1869), “Suggestions for forming a Council of Foreign Bondholders”, p. 10.
[9] For other illustrations of popular enthusiasm with bondholder councils, see Macmillan (1995), Buchanan (2001).

relation to credit embargoes.[10] If I work as a historian, I am speaking to economists. The new evidence challenges some beliefs held by this profession. At the end of the exploration, I make two substantive points that have historical, analytical and policy relevance. First, I argue that 1868 was not a turning point. The rise of "bondholder power" finds its origin not in Gerstenberg's "innovation" of 1868 but in a transformation that occurred in the London Stock Exchange more than 40 years earlier. It was this transformation, I argue, that led bondholders to get organized (and much earlier than economists recognize). Second, I argue that the CFB was really part of a broader machinery that was centred on the LSE. In fact, the powers of the LSE, as I describe them, appear to have been those of an international court of justice. This makes the 19th century experience a predecessor of the "statutory" view more than an anticipation of the "market solutions" view. Eichengreen and Portes may have picked the wrong precedent.[11]

Section I. The Mystery of the Corporation of Foreign Bondholders

The original academic interest for the Corporation for Foreign Bondholders goes back to the early work of Jenks (1927), Feis (1930) and Ronald (1935), to contributions by Wynne and Borchard (Wynne and Borchard (1933), Borchard (1951) Wynne (1951)), and, for "official" perspective to the Securities and Exchange Commission Report of 1936 (Securities and Exchange Commission (1936)). The Latin American debt crisis of the 1980s renewed interest for the topic and, as already stated seminal papers by Eichengreen and Portes papers brought organized the debate (Eichengreen and Portes 1986, 1989, 2000, Eichengreen and Werley (1988) Portes 2000). Subsequent research has provided qualifications rather than revisions. It has emphasized the role of the CFB as information provider: on defaulters according to Mauro et al. (2006, pp. 128–129, 162), thus helping investors to "distinguish between fair weather payers and lemons" (Tomz 2007 pp. 81-82); or on creditors according to Wright (2001, 2004), by "naming and shaming" those who defected from credit embargoes.[12]

[10] Unlike economic historians and economists (such as Mauro Sussman and Yafeh 2006), historians have recognized the existence and importance of early committees. The pioneering study Costeloe (2003) devoted to Mexico and its bondholders is, to my knowledge, the most complete work if it is limited to one country. See also Salvucci (2009).

[11] Before I proceed with my story however, one caveat is in order. Despite what the title may imply, this paper is not intended to articulate and "test" a new theory for the emergence of the CFB. Rather, as indicated, I am concerned with deconstructing an existing myth and providing a new understanding of the logic of bondholder collective action before there was the CFB, not explaining the birth of the CFB. There is no doubt in my mind however, that this is an issue that shall have to be considered by future research.

[12] The theme that the CFB sought to protect the interest of investors by providing them with information about borrowing countries is lifted from Jenks (1927, p. 290) who argued that "the appointment of Hyde Clarke [an economist member of various scientific societies] as secretary, and the commencement of a library of financial

One problem with the new view is that the "score card" of the CFB is ambiguous. When one looks closely, the experience of the CFB does not fit the simplest version of the analytical argument that well-organized bondholders delivered superior performances. Cross-sectional evidence on the performance of the CFB (comparing British CFB with the US FBPC during the 1930s) is inconclusive. Superficially striking differences in rates of returns between sterling and dollar bonds issued during the 1920s unravel when one controls for biases in the population of loans issued in London and New York.[13] Time series evidence is also problematic. A plausible test of the effectiveness of the CFB would be comparison of pre- and post-CFB debt renegotiation outcomes.[14] Again, superficially supportive data from Suter (1992) showing a shorter average duration of unresolved default during the period 1871-1925 (average time in default: 6.3 years) compared with 1821-1871 (average time in default 14 years)[15] may dissolve if one controls for the effect of other factors such as booming trade which may have increased the opportunity cost of not settling.[16]

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information and documents, provided services for members which had not been amply available to them"; According to Wright, the idea that bondholders' group were used to name and shame underwriters would originate in *The Times* (September, 16, 1864, p. 5) where it was said that "the parties who commit themselves to such transactions shall receive all the fame they deserve. If they think well of their conduct, of course they will be glad that it should acquire notoriety. If, on the contrary, they experience misgivings, some acquaintance with the view taken of the matter by the ordinary mercantile community may, perhaps, teach them that, after all, even money may be bought too dearly." (But compare with Flandreau and Flores 2012). Mauro et al. take issue with Wright, arguing that, looking in *CFB Reports* they found no evidence of efforts at naming and shaming defectors. It is not clear that the reports would be the right place for this.

[13] Eichengreen and Portes (1986) compare returns realized on loans issued in Britain and the US and identified a "striking contrast" (their abstract) between realized returns on dollar loans (0.71%) and sterling ones (in excess of 5.41%). However as they recognize (p. 626) the inferior dollar performance is reduced when the dollar sample is reduced to government bonds or bonds with government (3.25%) guarantees. Likewise, as I found by working with the figures provided in Eichengreen and Portes (1986), if the sterling sample is reduced to pure sovereigns (non colonies) the non-weighted average on sterling bonds is 3.11% a figure not different from the return on sovereigns in the dollar loans sample. Eichengreen and Werley (1988 p.4) acknowledge this fact arguing: "The superior performance of sterling loans compared with their dollar counterparts was due to the direction of British lending (oriented disproportionately toward the Empire and Commonwealth), more active intervention on the part of the British government, and more effective representation of British bondholders by the Council of Foreign Bondholders." No evidence is provided regarding the impact of the "more effective representation of British bondholders": Was it large? Was it significant? At the end of the day, it is likely that a large part of the subsequent performance had to do with initial selection as much as with the performance of later trouble shooting. For evidence suggesting that initial choices are significant factors explaining subsequent performance of government debt during the interwar see Flandreau, Gaillard and Panizza (2009).

[14] An alternative is to look at market prices to see whether the creation of the CFB was greeted by investors (who would have revised upward their assessment of the value of risky sovereign securities. A recent implementation and discussion of this test is provided by Flandreau and Flores (2012). They find no effect of CFB.

[15] Suter (1992, p. 91). The gross average default length for 1821–1975 is 9.2 years and 10.1 years for 1926–1975. The numbers reported by Suter for the early period are consistent with Marichal (1989, p. 60): The resolution of defaults that occurred after the crisis of 1825 generally took "between fifteen and thirty years." The most recent study on the topic is an unpublished paper by Esteves (2007). For recent data on default and renegotiation, drawing on Suter's unpublished dissertation, see Reinhart and Rogoff (2009).

[16] Most settlements on the first wave of defaults of the 1820s occurred between 1845 and 1865 explaining the apparent long lag for average defaults in the early period. Those who believe that a booming international trade encourages settling with creditors will point out that the timing of pre-CFB settlements coincided with the global trade tide of the 1840s and 1850s (between 1840 and 1860 world trade expanded by about 5% annually). See

However my main issue with the conventional view is trivially factual. As said, the much-used *CFB Reports* were precisely meant by CFB leaders to organize a narrative outlining the novelty of the endeavour and the successes of the 1868 "revolution". They distilled the notion that the CFB came into being in a bondholder vacuum and thus, naturally, the rhetoric of the CFB discounted the importance of pre-existing committees. This was a key claim of the story Gerstenberg told during the 1860s and later CFB *Reports* repeated.[17] However, as researchers know but curiously ignore bondholders committees were started long before the creation of the CFB – in fact, as a rule, rather early. They were started in the 1820s and 1830s – even when outstanding amounts of foreign debt in default were not large. And they were organized by country so that, more often than not, these structures involved all the loans of a given country and this by itself dealt with the "aggregation problem".[18] Conversely, the arrival of the CFB did not abolish competition by the stroke of a pen. For instance, during the 1870s there was a violent fight between the Mexican committee of the CFB and a separatist Mexican committee, led by one founding member of the CFB.[19]

Another factually inaccurate presumption of the modern view has to do with the function or location of bondholder committees in what I call the "foreign debt food chain". In a series of recent papers with Juan H. Flores we documented our empirical discovery that early foreign government bond markets rested on a three-tiered arrangement where issuing houses (1) sold the debts of borrowing states (2) to general investors (3) (in contrast to existing formal models which distinguish solely between debtors (1) and creditors (2)). Moreover, we found that the market for debt underwriting was not the conflict of interest-undermined chaos

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Marichal (1989, p. 59-60). See Accominotti and Flandreau (2009) for a review of trade expansion during that period. Note that in the data organized by Reinhart and Rogoff, the percentage of defaulted countries (in total outstanding borrowing) decreases in the 1850s and until 1865. See also Suter (1990), Figure 3.4, p. 87.

[17] Gerstenberg (1869)

[18] A thorough examination of Mexican bondholding is Costeloe (2003). There is no similar source for other countries. The one great problem with the early organizations is that they became extinct without leaving archive and published their reports in a somewhat disorganized way. See however Costeloe (2003, p. 338 ff) for useful inventory of the semi-annual reports of the Committee of Mexican Bondholders going as far back as 1830. The Archive of the London Stock Exchange is a precious and under-used source. One example is 1867 Honduras LSE application which contains the copy of the "Minutes of proceedings of the holders of Central American bonds at the meeting convened at the instance of the Spanish American Bondholders, and held at the offices 11 Austin Friars, London, on Monday 8 July 1867" (Guildhall 24A/1443; see also Select Committee, p. 50). Other examples are given in text.

[19] Costeloe (2003, p. 220-231). Under Henry Sheridan, who was initially associated with the CFB, the Committee of Mexican Bondholders remained independent, and cooperated with the CFB in the 1870s (In 1874 they jointly opposed a Mexican Railway Company Bond issue in 1874 upon the grounds that this company receiving a government subsidy, the LSE should treat it as a government bond; the LSE dissented for the shareholders of the company were British citizen who had at no point defaulted on their promises). After that, the two committees went different ways, and relations deteriorated. It was not until 4th April 1876, that the Mexican Committee joined the CFB after "some hesitation" and Mexican bondholders' pressure. Compare with Mauro, Sussman and Yafeh (2006, p. 145) who play down the rife between the two groups on the basis CFB own reports!

described by conventional research.[20] Prestigious bankers were careful to underwrite high quality debts, which did perform very well. They did so to protect their brand and future underwriting revenues. Our data strongly support the view that high profile bankers were (in the overwhelming majority of cases) successful in their efforts to cajole or coerce borrowers into repaying. Ordinary bankers on the other hand could not care less and fit the description of "irresponsible bankers" undermined by conflicts of interest, but this was understood by markets and resulted in high yields. Only countries that made enough efforts to attract the attention of prestigious bankers were "rewarded" by market access at favourable terms. The others were "punished" by the high yields.

This is the world where the CFB came into being and it was not a world that lacked incentives for borrowers (explaining our finding that the creation of the CFB had no impact on yield spreads for speculative debts). To explain the rise of the CFB we cannot assume this world away and refer to alleged intermediaries' conflicts of interest, which were not there. Instead, we need to "reconstruct" the emergence of the CFB from a more careful discussion of the foreign debt food chain. Doing this takes us to the London Stock Exchange -- to a world of rules, procedures, and "statutory" arrangements.

Section II. The Stock Exchange and the Defaulter

The conventional story about why the CFB was powerful is that it would have "owned" market access. From Charles Lipson (1985), p. 46) for instance, "the most powerful weapon [of the CFB] was the denial of further credit." This story goes back to Jenks (1927) and Feis (1930) who suggested that this weapon originated in a regulation by the London Stock Exchange, which did "refuse quotation to new loans to governments who were in default in existing obligations and who had refused to negotiate in good faith with their creditors... For information on the status of loans and readjustment negotiations, the Exchange relied upon the [CFB]".[21] The literature is generally vague regarding the date when this regulation was

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[20] Eichengreen and Portes (1986, p. 621) "bondholders recognized, however, that the issuing house was likely to be torn between the interests of two sets of customers: bondholders and foreign borrowers… Given the potential for conflict of interest, most readjustments were therefore negotiated not by issuing houses but by independent committees." I am not sure about the meaning of this statement neither in its context (they describe the New York market during the 1920s when there were almost no defaults to deal with) nor as an out-of-sample characterization of British bond markets at the time the CFB was created. There were very few defaulted bonds in New York during the 1920s (China, Mexico, and some Russian issues).

[21] This is Eichengreen and Portes (1989a, p. 15). The veto point permitted by "close working relations with the [London] Stock Exchange" would have been the source of "much of the influence of the Council". A similar statement is found in Eichengreen (1991, pp. 162-3): "The CFBH's influence derived from its connections to the Stock Exchange. A representative of the Exchange sat on the Corporation's governing council. The Exchange refused quotation to new loans of governments in default, especially those that had failed to negotiate in good

adopted and silent as to the reasons for its adoption.[22] It is generally mentioned that the regulation goes back to the 1820s. This is problematic: If the veto point existed so early, how come that it was only in 1868 that bondholders took advantage of the opportunity?

a) Origins of the no-Default Rule

Details on the creation of the no-default rule are found in the handwritten minutes of the Committee of the London Stock Exchange (and in articles published in select newspapers such as *The Times*, which was the Committee's preferred vehicle for official pronouncements so that certain declarations summarized in minutes are found in full in *The Times*).[23] The Committee was the Exchange's relevant decision-making body with enforcement powers over bargains. At the time, many financial transactions (such as forward contracts) were disallowed under British law but they were recognized by the Exchange and enforced under penalty of exclusion of Exchange members (brokers who dealt with outside investors and jobbers who actually executed the orders or traded for their own account). In other words the Exchange Committee routinely enforced otherwise illegal transactions -- in effect it had a kind of judicial "extra-territoriality" within British polity.[24] As a result of this authority, the Exchange was a self-governing and self-regulating institution.[25]

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faith with their creditors. For information on good faith, the Exchange relied on the CFBH". In both cases, the sources given are Jenks (1927) and Feis (1930) pp. 114-5).

[22] If we follow Jenks (as many recent authors such as Eichengreen and Portes (1989a) or Wright (2001) do) this goes back to a "precedent" in 1825 or 1827, if we follow instead Morgan and Thomas (1962). Jenks (1927, p. 284); Morgan and Thomas (1962, p. 93). The third main second hand source quoted in the literature (Feis 1930 pp. 114-5) prudently abstain from giving any date. As the rest of the paper shows, there might have been a "precedent" in 1825 (although I found no evidence of any), but the rule was established in 1827. An article by Neal and Davis (2006) provides much useful detail on the institutional history of the London Stock Exchange basing his evidence on a manuscript by Reginald Edward Satterthwaite ("Satterthwaite/MS") containing notes for a projected history of the London Stock Exchange. Satterthwaite, heir of a family of London brokers, was a Secretary of the Committee of General Purposes and must have been acquainted as a result with original sources. Use of Satterthwaite leads Neal and Davis to situate the regulation in February 1826 (a typo?). To my knowledge, Deirdre Shay Kamlani (2008) is the one work that has forcefully emphasized the relevance of this early introduction of the rule as I do here.

[23] For simplicity I refer in this article to the Stock Exchange "Committee", although there were two subsequently relevant Committees in my story. Until 1828 when the Foreign Stock Market was merged with the London Stock Exchange, the Committee refers to the Foreign Stock Market Committee. After that date authority and regulations were with the London Stock Exchange's Committee for General Purposes. Because the Committee for general purposes inherited regulations and authority from the Foreign Stock Market Committee, there was no institutional discontinuity except of course that the merger between the two exchanges might have influenced the letter or practice of Stock Exchange regulations, which as we'll see, was not the case. Sources of my account are the Minutes of the Foreign Stock Market Committee MS 14617, 1 and the Minutes of the General Purpose Committee MS 14600 ff. Information on the creation of the no-default rule is also found in *The Times*, February 24, 1827, March 1, 1827.

[24] But until 1860, the Barnard Act of 1733 disallowed forward contracts, making it possible for counterparties to default without facing the risk of litigation. The Exchange Committee also recognized options and later recognized the shorting of bank securities when this was prohibited by Leeman's Act of 1866. Bargains were enforced through LSE rules under penalty of exclusion. See the de Zoete's interview in Select Committee (1875) for contemporary discussion. When asked by the Select Committee on the Loans to Foreign States about the effects that prohibitions introduced by an Act of Parliament would have upon the ways in which the business

The Committee's jurisdiction extended to the securities they had recognized, i.e. for which they had given a settlement date (thus permitting forward transactions to begin) and which were included in the Exchange's official list. In February 1827, the Committee received a letter from a deputation of self-styled "holders of the bonds of the Spanish Government". Their concern, they explained, was the rumour that one intermediary was trying to push for the listing of a Spanish debt in the London Stock Exchange.[26] Spain was in default on two London loans (1821 and 1822). The new issue, they claimed, tended "in point of fact to establish a system of credit most injurious and destructive to [their] interests".[27] Importantly, the petitioners also suggested making of the exclusion of securities by borrowers in arrears a matter of *general policy*. The Exchange committee heard them and heard the said intermediary, and also heard Wetenhall, the Exchange member who ran the official list to see if he had heard of OTC bargains on these new securities. A vote was held on introducing this new rule and it was supported by a large majority of the Committee (8 to 3). This is how it was decided that the Exchange would no longer "sanction or take any cognizance whatever of bargains that may be made in *New Bonds or Stock, or any other securities issued* by any foreign Government, that has not duly paid the dividends on former loans raised in this country, unless that Government shall have effected some satisfactory arrangement with the holders of the *Stocks or bonds or other securities* on which the dividends have been left in arrear" (emphasis in original). As per Committee rules a subsequent meeting confirmed and adopted the Minutes of the previous meeting, which is how the rule was upheld and Wetenhall was instructed not to record "any transaction that may be entered into in the new debentures" of the Spanish government.[28] This does not mean that the Spanish operation was impossible – only it would have to occur in OTC market and without any supporting enforcement mechanism.

b) Legacy of the no-default catch

As far as I can tell from the Minutes of the Stock Exchange Committee, the first test of the new rule came in mid-January 1831, when the Portuguese exile government of Regent Donna

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was conducted on the Exchange, the Chairman of the London Stock Exchange stated that if such a law were framed, the Stock Exchange Committee would expel a member who would refuse to fulfill his contract on the ground of its illegality. *Select Committee*, p. xcviii; See also Morgan and Thomas (1962, p. 93) who states that the Exchange "by long tradition was distrustful and even contemptuous of Acts of Parliament".

[25] Leading previous histories of the Exchange include Morgan and Thomas (1962), Kynaston (1994), Michie (1999).

[26] Technically, this was an attempt to securitize an obligation that Spain had granted to indemnify private parties as a result of Spanish capture of English boats between 1808 and 1823.

[27] The banker in charge was one S. Cock; See Minutes of Foreign Exchange, MS 14617, 1, p. 404-6

[28] MS 14617, 1, p. 406; Text also quoted in *Times*, March 1, 1827; Ratification of Minutes, according to MS 14617, 1, p. 407 would be on March 2nd.

Maria then at war against the absolutist regime of her brother Don Miguel who had overthrown her in 1828 applied for listing of a new loan.[29] At that point, Maberly, the merchant banker who was underwriting the loan, instructed his broker Easthope to require permission for a new listing. The one loan that had been issued in London by Portugal was in default since the overthrow in 1828, and, despite the complexity of the events that had led to the default, responsibility for the non-payment of the coupon could be imputed to Donna Maria's government. Maberly must have recognized the risk of an objection and instructed his broker to argue that Donna Maria was acting in good faith, would make efforts with bondholders, and so on.

The application, on January 15th, was met by David Salomons, a member of the Exchange who said he was representing the "bond holders" and whose name appears at about the same date in the press as member of a Committee of Portuguese Bondholders along with three other members including one Richard Thornton, of whom more later.[30] Salomons stated that the new loan came under the "spirit of the resolution passed in February 1827 respecting Spanish bonds."[31] At the end of a discussion that extended over several days, the Committee turned down the new Portuguese "Regency" loan with 13 votes against 7.[32]

The Portuguese episode ingrained the rule of 1827 into the body of relevant Stock Exchange regulations. In fact, a few years later, what was now referred to as "Rule 27, under bargains" survived a motion to repeal. Following "considerable discussion" – but the details are lost – the motion was returned "negatived" with an overwhelming majority of 17 to 2.[33]

[29] It is understood that Maberly had investments in industrial concerns, notably arms, and it may be speculated that, in the typical fashion of British merchant bankers of those years, he had advanced equipment and hoped that the new loan would pay him off. I find another occurrence of Maberly contracting for a country at war or near war in a Dec 24, 1831 *Times* "Money market and City intelligence entry", in reference to a loan issued by Rothschild and on which Maberly would have betted.
[30] See for instance Times; "Address of the Committee of Portuguese Bondholders", Feb 2, 1831.
[31] GPC, Minute Book, MS 14600-12, pp. 179-86, January 15 to 17, 1831. The following day, Maberly inserted an article in The Times where he repeated for his statement to the Committee: That the Portuguese Regency would recognize the debt of 1823, that upon recovery of her Dominion, Her Majesty would immediately, faithfully and punctually pay the interest and also all arrears, etc; *Times*, January 17, 1831, p. 5, "Portuguese regency Loan". Article by Maberly and copies of statements by Portuguese plenipotentiary.
[32] The discussion was complicated by the fact that Committee members were unsure about how they should take decisions on such matter – it was finally voted that decisions would be taken by voting (17 to 2). The final motion being put forward by Lousada and Moxon reads "that the dividends on the Portuguese Loan of 1823 being in arrear and unpaid for some time past, this Committee cannot allow the prices of any new loan attempted to be raised by the Government of Portugal to be quoted in their lists". No vote was taken at first and a counter-motion was put forward during the next meeting by Capel and Miéville this time "that the bonds about to be issued by the Regency of Terceira be allowed to be marked in the usual way".
[33] Committee for General Purposes, Minute Book, 1831-33 MS 14600-13; Monday 25 Nov 1833, p. 320: "Mr Maubert gave notice of a motion for Monday, the 9th December next, for the repeal of the Law, n°27, under the head "Bargains". Special summonses were ordered to be issued for that Day. Adjourned." This continues on p. 321: "Mr Maubert's motion for repealing the Law n°27 / Bargains negatived [in margin]. Mr Maubert, in compliance with the motion given by him on the 25th inst. now brought forward the following motion, which

After that, one can always find the rule with essentially the same wording in the Stock Exchange rulebook, even if the deplorable habit to renumber the rule each time a new one was inserted before pushed its mark further up and makes the catch a moving target: The Rule 27 under bargain of the early 1830s would become rule 57 in the early 1860s, 58 in the late 1860s and 59 when the Exchange's Rules and Regulations were printed in 1873.[34]

Section III. The Value of Listing

The main effect of the control of listing by Stock Exchange authorities was to create a system of conditionality: in a world of frictions and incomplete markets, not being able to secure listing in the main capital market of the world was a penalty and this penalty was an offset to any benefit from not paying one's debts. When *The Times* commented approvingly about the new default rule in 1827 it stated precisely this, that the rule would have given much satisfaction "on 'Change" because it was "high time that all Foreign Governments should be informed that they are not to be permitted to commit wholesale plunder in this country without to recoil of injurious consequences upon themselves – a conclusion to which, from the patience and long suffering that has been evinced, some of them have probably come".[35] Some years later, when discussing the expediency of listing a loan for Greece (then in default) Sampson Ricardo (member of the Exchange and brother of David) stated that "He considered that should the Committee refuse to sanction the marking the present Greek Loan, it might possibly induce either the Greek Government, or the Contractor for this Greek Loan, to do something for the benefit of the Bond Holders of the former one".[36]

Obviously, the incentivizing power of this penalty was proportionate to the value of securing a listing. The matter has been briefly and informally addressed in previous research and with conflicting assessments. Some authors have posited that the veto point was very valuable while others suggested that, owing to competition from other trading platforms – both OTC in London and foreign listing – the pain inflicted by refusal to list a new security

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was seconded by Mr Mieville. "That the Law n°27 under the head "Bargains" be repealed". Which motion, after considerable discussion, was by show of hands negatived 17 to 2

[34] MS 14600/27: Minutes 1862-1864. This is the wording in the 1873 edition: "The Committee will not sanction or recognize new bonds, stocks or other securities, issued by any foreign government that has violated the conditions of any Public Loan raised in this country unless it shall appear to the Committee that a settlement of existing claims has been assented to by the general body of bondholders. Companies issuing such securities will be liable to be excluded from the Official List." Our italics. Slaughter (1873), states that a listing would be stayed until proof be given "to the Committee [of the London Stock Exchange] that a settlement of existing claims has been assented to by the general body of bondholders". London: Published under the authority of the Committee for General Purposes;

[35] *Times*, March 1, 1827.

[36] "…But he would not say on what that opinion was founded" (sic). GPC-MB-1831-33- MS 14600-13, pp. 269-70. August 19, 1833.

was limited.[37] As already indicated, admission in the official Exchange involved two different things, and both could have an effect on prices. One was the granting of a "settlement date" which permitted official trading and the other was the "quotation" as the recording of prices in Wetenhall's official list was known. The value of granting a settlement date had to do with the already described contract enforcement role, which the Stock Exchange Committee performed. Without the sanction of the Stock Exchange, agents could still undertake OTC bargains but at their own risk. The lack of oversight was a peculiarly serious problem when bankers sought to "make a market" for a new security. The other benefit associated with official listing was that the pricing of the security would be subjected to the surveillance operated by the Exchange committee. Since Wetenhall was in charge of recording bargains and making sure that only relevant prices would be listed, listing conveyed relevant information. He certified prices (an issue of relevance, as the recent LIBOR scandal has shown). Illustrating this, the 1827 attempt at listing the Spanish government debt was reported to have been motivated by claimant's concern with securing a "current price in London" and thus facilitate secondary trading. According to a declaration by the Exchange Committee's Chairman de Zoete before the Select Committee for Loans to Foreign States in 1875, if quotation were withheld, "most probably it would depreciate the price". "It is a penalty to withhold a quotation" he explained, "and therefore to a certain extent it does damage the stock of the State…because certainly the stock of a State that is quoted is always in a better position than when it is not quoted". Asked by one examiner whether, "practically, […] this gives a certain status to an undertaking and puts it in a very much better position than it was before" de Zoete returned with the affirmative.[38]

Empirical test of this proposition is by no mean easy not least because speculators' expectation that LSE authorities were about to grant their seal of approval must have had the same effects as the decision itself, thus permitting liquid trading pending the Committee's

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[37]. According to Eichengreen and Portes (1989a, p. 15-6) "although some trading in London might take place outside the Stock Exchange and although new loans conceivably could be floated in other markets, lack of access to the London market was a serious sanction". Early commentary emphasizing the limited costs of non-listing includes Jenks who claimed that the Committee could not "altogether prevent trading in London" as there was OTC trading beyond the official market and also adds: "What was a Stock Exchange rule to cosmopolitan bankers who could bring out loans in any of several markets and handle trading orders from half a dozen countries in securities which had official quotation in but one?"; Wright (2001, p. 128) follows Jenks and argues that "a listing was not necessary for a bond to find subscribers in London". Wright (2001, p. 127 ff) also suggests that the standards adhered to by the Exchange were low, as it generally rubber stamped the listing of securities already traded on the OTC market. He gives as example a Massachusetts loan and one by the City of Ontario, although as far as I can tell none of these were in arrears, so that there was no breaking of the rule. A natural objection to Wright's anecdotal evidence is that successfully OTC trading of these North American bonds occurred because people correctly anticipated the eventual OK by the Exchange, given that these borrowers had a clean record. The Venezuelan case discussed below shows what happened when they made wrong forecasts.

[38] Select Committee (1875) p. 28.

decision and preventing clear identification of the decision.[39] Vice versa a security whose listing was not expected must have been penalized in OTC markets preventing again the identification of the effect of the Exchange's decision. A plausible indication of the costs of the decision of not listing a security may be garnered from a Venezuelan episode in 1862 discussed in greater detail later. The security had been introduced by Barings and they had pushed hard for the Exchange to list. But there was one unexpected problem with the loan and it required the Venezuelan negotiator to sail to Caracas to check the paperwork with the Venezuelan parliament. When the decision to stay the listing until further notice was taken speculators had already begun trading.[40] Bargains were not yet listed in the official price list but the press reported OTC prices. From *The Times*, OTC prices of the new Venezuelan security were in a range of 0.5 to 1% *premium* above par (as the issue price was known) *before* the decision to stay. On the day the stay was pronounced (August 21, 1862) the price of the Venezuela in over-the-counter markets plunged to a 1% *discount*.[41] Given that this was only a decision to postpone the formal listing and that underwriters were known to support their securities, this 1.5-2% spread is very much a lower bound estimate of the cost of non-listing and it is thus quite plausible that the cost of non-listing was really substantial. Failing to secure the listing was indeed a penalty.[42]

This is supported by evidence from LSE archive, which establish clearly that issuers (underwriters and governments) *were* concerned with securing the listing. An interesting case among others scattered across the century is provided by the way Austrian and Hungarian authorities reacted to adverse decisions in the late 1860s and early 1870s (an episode to which we return later on). The refusal in 1870 to list a new security issued by the Austrian government led to efforts by Austria's finance minister Beust to persuade the Committee to reverse its ruling. Beust requested to be heard by the Committee and wrote a lengthy plea. It eventually fell upon Hungary (as a former joint debtor with Austria of Austro-Hungarian debts until 1867) to settle with bondholders on the pending debts Exchange authorities reckoned as due by Austria.[43] Why should Hungary have offered money if listing was not valuable? In the same interview already quoted Chairman of the Exchange de Zoete later

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[39] For a contemporary allusion to this mechanism, albeit from a different perspective, see Wright (2001).
[40] As the long list of brokers who underwrote Baring's application suggests: 29 brokers, and not minor ones, when a typical application had 5 to 8 signatures. Guildhall 22A/965.
[41] I am grateful to Juan Flores for having shared this material with me.
[42] An open question is that of the time series evolution of the value of listing and settling. Given that London supremacy over foreign debt was quasi complete until fairly late in the century, it is unlikely that the issue was less important in the early period.
[43] GPC-MB-1870- MS 14600-34, p. 146 ff. On Hungary see Köver (1988) and below, and GPC-MB-1871- MS 14600/35, p. 379, 381.

argued that the reason why governments had made “representations” in the past was that they would have “felt detriment” from not being included in the list.

Section IV. The Work of the Exchange Committee

Three questions come to mind when one thinks about the practice of the veto point. The first is, was the Exchange Committee, to use the modern terminology, dovish or hawkish? Another is how did the Exchange work to operationalize its rule that new issues by defaulters would be banned unless some satisfactory arrangement with the bondholders would have been made? This required identifying relevant bondholders’ bodies, but how was it done? The third question is whether the arrival of the CFB significantly affected the practice of the Stock Exchange. It is impossible to review in such a short section the many fascinating cases that were discussed by the Exchange Committee between 1827 and 1873 when the first CFB Report was printed. In what follows, I distil the understanding I got from reading more Committee Minutes than I can summarize through the lenses of three significant episodes, which address respectively the three questions above.

a) Greece, 1833

The episode of the Greek loan of 1833 is interesting to examine because Jenks (1927) has argued (and others have repeated) that higher political motives forced the loan on to a reluctant Exchange, which on the occasion would have “conformed to the diplomatic policy of the government”.[44] As will be seen, this was not the case and the Committee was not the dovish institution portrayed by Jenks. In December 1832, a troika of European powers (Great Britain, France and Russia) sought to stabilize the finance of Greece’s government by having Rothschilds issue a loan that would be jointly guaranteed by the powers. Rothschilds inquired with the Exchange whether the loan would be allowed in the Official list. But Greece was in arrears on its two so-called Independence loans and application was met with the objection that granting of the Stock Exchange privilege conflicted with “Law Nr 27 under ‘bargains’”. The Exchange Committee heard interested parties. This included Samson Ricardo who stated to be representing the “Greek Bond holders” and indicated that he had organized a gathering of this group because he considered the new Greek loan “as affecting their interest”. Next, the “Law nr 27 under the head ‘Bargains’” was read and “it appearing that the Dividends upon the former Greek Loans had not been paid, and that no arrangements had been made with the Bonds holders; it was moved by Mr Hammond seconded by Mr Capel, and carried

[44] Jenks, (1927 p.). This is an important instance because it inspired later writers such as Wright (2001).

unanimously [that] the Committee are of opinion that unless some arrangement is made with the present Greek Bond holders, they cannot permit the Prices of the proposed Greek Loan, to be marked in their authorized List".[45]

The matter came back later (August 5, 1833) with a motion that underscored that this Greek loan was of a different nature because of the joint guarantee of the powers. Political pressure may have been the reason for this encouragement to re-consider. But again the motion was met by an amendment, which essentially repeated the substance of "Rule 27", stating that the "Committee are of opinion, that unless some arrangement is made with the Bond Holders of the former Greek Loan, they cannot permit the Prices of the last Greek Loan to be marked in their authorized List." A "long discussion" followed and the no-default rule was upheld (10 to 5).[46] Then for a third time in July 1837, another application was made, emphasizing again guarantees, faithful payment of the coupon, etc., which again was rejected.[47] Checking the Stock Exchange official list in all subsequent years until 1868, I cannot find any trace of the listing of the Greek bond.[48] And thus, not only wasn't the rule broken (unlike what Jenks and others have claimed) but the episode truly underscores the resolve and independence of the Committee.[49]

b) Venezuela 1862

In the previous example we saw that the Exchange was reluctant to identify different categories of bondholder (even when this was motivated by different guarantees) and thus in effect went by a kind of *pari passu* logic (i.e. the uniform treatment of various categories of bondholders).[50] The example I consider now shows more precisely how the Exchange worked by aggregating bondholder claims. On August 14, 1862, Barings' broker Seymour applied for the listing of a Venezuela 6% loan in the London Stock Exchange. The loan was part of a restructuring arrangement. Venezuela, then a defaulter, accepted to settle with creditors and in

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[45] The Secretary of the General Purposes Committee of the Exchange was ordered to convey "verbally" to Mr. Rothschild the decision.

[46] General Purposes Committee, Minute Book, 1831-1833, MS 1460-13, Monday 24 Dec 1832, p. 165; 26 December 1832, p.16; 5 August 1833, p. 268; Monday, 19 August 1833 p.269-270; The motion examined read: "That the Committee of the Stock Exchange are of opinion that as the Loan of £2'4000'000, commonly called the "Greek Loan", is made under the special convention with, and guaranteed by the Governments of England, France, and Russia, the Law n°27, under the head "Bargains", does not apply to it; and it is therefore expedient that it be marked in the authorized List of the Stock Exchange, and that it be denominated 'Guaranteed Greek Stock'".

[47] Motion by [Raincock] (poorly legible) and Louis Samson. It was made with same answer. See GPCMB, MS 14600-16, p. 22, July 31, 1837.

[48] The reason for the confusion may have been the inclusion of the bond in the CFB's list of London issues (CFB's 1878).

[49] For an articulation of the view that it was dovish, see Wright (2001). I have explored the case of a Massachussets bond discussed by Wright and my understanding differs from his perhaps because I rely on primary source.

[50] The most recent discussion of the *pari passu* clause and its history is Gulati and Scott (2013).

return was enabled to raise fresh money. Therefore, the application emphasized that the loan resulted from an "arrangement accepted by the Bondholders at a meeting held at the London Tavern on the 20th June 1862". The application specifically emphasized that "as regards the old Venezuela bondholders it is well known that they have fully agreed to have indeed co-operated in the negotiation of the new loan."[51]

But when, on August 18th, the Exchange Committee considered the application, it had a letter (dated July 11th) from one Richard Thornton who reported being a bondholder dissatisfied with the June arrangement.[52] This was the same veteran foreign bondholder Thornton whose name we came across when discussing the rejection of the Portuguese Regency at Terceira loan in 1831, as a member with David Salomons of the Portuguese Bondholders Committee (and whom David Morier Evans described in 1845 as "next to the Rothschilds and the Barings, stands A1 in point of wealth and connection with foreign countries").[53] Faced with disagreement among creditors, the Committee automatically adjourned until John Field, chairman of the said bondholders' meeting could be heard. Two days later Field appeared before the Committee and described the meeting, the minutes of which had been included in the application.[54] Field confirmed that the purported restructuring had been widely supported with only a "few hands held up against the resolution". The Exchange then endorsed the view that bondholders at large had supported the restructuring.[55]

Once the issue of bondholders' agreement was cleared, the Committee went over the terms of the arrangement and it was discovered that the powers of Señor Nadal, negotiator for Venezuela, did not extend to the specific arrangement that had been adopted. A niggling understanding of the rule required Nadal going back to Venezuela and getting the agreement of Venezuelan authorities (no transatlantic cable back then): Had Venezuelan parliamentarians eventually turned down the deal (and nothing guaranteed they would not), then this country would have still been in default at the same time it would have enjoyed a listing authorization in violation of the LSE rule. With discontent bondholders out, a motion to stay the loan until "formal ratification of the Loan has been received by the Contractors"

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[51] This was a meeting of so-called "Venezuelan bondholders" itself a branch of the "Spanish American Bondholders". LSE Applications, 22A/965, Venezuela 6% 1862.
[52] London Stock Exchange Minutes, 1862-1864, Ms 14600/27. See p. 34 for the reference made to Venezuela's "derogation of Mr Thornton's just rights" and the complaint of the gentleman.
[53] Morier Evans (1845, p. 154-5).
[54] LSE Applications 29A/965 and MGPC, 14600/27 (1862-64), in particular pp. 34, 96.
[55] There does not appear to have been a clear threshold for recognizing a majority although the evidence suggests that it was always a qualified majority. In the Venezuelan case we see that "a few hands" were held up against the resolution. In an application by Honduras, on February 4th 1868 it was stated: "All the creditors who could be communicated with had agreed to the terms and three fourth of them were present at the public meeting". MGPC, 14600/32 (1867-68).

was thus adopted by a large majority (6 against 1). Nadal sailed to Caracas and it would be a few months until the news of the formal agreement of the Venezuelan Parliament reached London and the authorities of the London Stock Exchange agreed to the listing. Meanwhile, Thornton kept sending forth his complaints, which the Committee recorded but ignored.[56]

In other words, the episode shows that the rule by which the Exchange went was that when deciding upon whether a "satisfactory arrangement" had been arrived at with bondholders was a qualified majority. Thus 19th century foreign debt markets were not strangers to Collective Actions Clauses (contrary to statements occasionally found in the literature) except that such clauses were embedded, not in the contracts signed between underwriters and borrowers but in the rules, procedures and practices of the London Stock Exchange, which acknowledged a role in the settlement of defaulted foreign government debt.[57] It was the Stock Exchange which undertook to "aggregate" bondholders. The loop was completed by the view taken by British Courts, who adopted a generous approach to sovereign immunity, with the final effect to fully disenfranchise minority bondholders.

a) Austria 1870

The last case study I consider is an episode that led to the de-listing of Austria's securities from the London Stock Exchange in 1870. It is an interesting episode because it has often been described as one example of the CFB's "new" tactics.[58] The context was that of a debt restructuring by Austria-Hungary at a time of political decline and fragmentation.[59] The situation was further complicated by disagreements with the House of Rothschild, the

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[56] London Stock Exchange Minutes, Minutes 1862-1864, Ms 14600/27. February 2nd, 1863, Thornton again "asked the committee not to allow the Venezuelan Bonds of the last loan to be quoted in the Official list till his demand are satisfied" (the decision to mark the bond in the official list had been taken in late October 1862). Thornton motioned on legal grounds on which the LSE Committee declared itself incompetent. The Committee, *Minutes* indicate, is "unanimously of opinion that it is not within their province to decide upon the validity of Mr Thornton's claims on the Customs duties of the Government of Venezuela".

[57] Mauro, Sussman and Yafeh (2006, p. 150) argue that majority action clauses are missing in the 19th century's sovereign debt contracts and conclude that "it is not clear when these clauses gained prominence in sovereign bonds issued under UK law, where they have been common for a number of years". Following Buchheit and Gulati 2002, Billyou 1948, majority clauses were introduced in *corporate* bonds in Britain in 1879 and rapidly gained popularity. Had such clauses been added to the contracts, it is dubious they would have had any value: The prevailing regime of privileged exemption of the sovereign prevented creditors from enforcing sovereign debt in any court. Since the 20th century, it has become more and more frequent for bondholders to find courts willing to give decisions in their favor thus permitting minority bondholders to organize hold-outs. See Gelpern and Gulati for a discussion. My own interpretation of the significance of debt contracts that were nonetheless signed is that they protected the sovereign against the intermediary.

[58] The compliment was made by the CFB itself in its early Reports and has been duly reproduced by authors relying on those reports, the channel of contagion being a page in Feis (1930, p. 115). For instance, Mauro, Sussman and Yafeh (2006, p. 154-5) argue that blocking access to capital markets was the CFB's "main method for punishing defaulting countries" and that it "had a powerful impact" as illustrated by the list featuring Austria.

[59] In 1866, the Dual Monarchy was defeated in an important war by Prussia and Italy and in 1867, it had to cope with the fiscal implications of Hungary's tax secession.

Monarchy's usual banking relationship.[60] Finding it difficult to secure new borrowing, finance minister Beust resolved to impose a conversion of external debts into new taxable securities. The original securities had been '*steuer frei*' (tax free) and creditors considered this to be a breach of contract. Some form of composition with bondholders was sought, and partial compensation was offered in the form of an increase in the capital. The deal was not such a bad one, as there was a 20% cut on the coupon but a 15% increase in the nominal value of the debt. But this did not satisfy the group of London holders of Austrian debt, known as the "Anglo-Austrian bondholders".

In August 1868 (before the CFB was launched) this group sent a representative to the London Stock Exchange filing a formal protest and warning of their intention to take advantage of LSE's "regulations in preventing the settlement and quotation of any future Austrian Stock".[61] In August 1869 the same group of bondholders filed a new protest – this time through the newly created Council of Foreign Bondholders, which the Anglo-Austrian bondholders had joined.[62] In May of 1870, the Austrians nonetheless moved forward with the intended conversion. The LSE's Committee, in what may described in light of all the above as a routine move automatically declared that the "the Austrian Government has placed itself under the operation of Rule 58 and that loans under their guarantee would not in future be quoted until a satisfactory arrangement had been come to".[63] This was the familiar language and the regular decision (with the effect that, since the Austrian was retiring the old bonds and the new one would not be listed, Austrian securities were effectively "excluded" from the exchange).[64] The next stage in the procedure was a confirmation of the decision through a

[60] See Gille (1967) for historical details on the political underpinnings of the conflict. On the value of a banking relation for market access see Flandreau and Flores 2009, 2012.

[61] MS 14600/32, p. 278 Austrian Bondholders protest, 31 August 1868: "I am also requested to pray you to take cognizance of the grave infractions of the terms of the original bonds as disclosed in such protest, with the view of securing the benefit of your regulations in preventing the settlement and quotation of any future issue of Austrian Stock, or of stock or shares bearing the guarantees of the Austrian government until such time as the Austrian Government shall have effected and carried out a satisfactory arrangement with the holders of bonds of the said loan"

[62] 1869: MS 14600/33, August 5, 1869, Protest by Anglo-Austrian Bondholders.

[63] MS 14600/34, p. 139, 5 May 1870. In reaching its decision, Minutes state, the Committee for General Purposes had felt "it incumbent upon them to declare that the Austro-Hungarian government [had] brought itself under the operation of Rule 58 by virtue of which no new Loan in guarantee of that State can be quoted in the official list of the Stock Exchange until the just claims of the creditors have been satisfied"; MS 14600/34, May 10 and May 18. The decision not to list the new securities was carried by a majority of 9 members against 6. The preamble of the decision stated that "the said conversion was an act of arbitrary injustice and a direct violation of the conditions of the loans of 1852 and 1859 and that although the addition of 15 percent to the capital may have been intended as some compensation for the hardship inflicted upon individual holders it cannot relieve the Austro-Hungarian government from the responsibilities attaching to a course which is altogether at variance with sound and equitable principles".

[64] A consequence was that, since the converted securities were to be removed by authorities themselves, and the new ones could not be listed as a result of the ban, Austrian bonds were to be delisted (technically, therefore, the

vote on the minutes during the next meeting. At that point, Gerstenberg, who was a member of the Exchange, put matters off course. In disregard of the Committee's Chairman instruction not to make any announcement before the move be official, he told the CFB Secretary Hyde Clarke to send a letter to the editors of the *Morning Post* and *Daily News*. The letters announced the London Stock Exchange's decision as if it were official but more importantly, it added that "by these just and severe measures, Austria will be compelled speedily to come to a satisfactory arrangement with her British creditors, *and a most important precedent is established, whereby the confidence felt in the security of the foreign bonds under the control of the Stock Exchange for public quotation will be immensely enhanced* (Signed, Hyde Clark, Secretary of the Foreign Bondholders)".[65]

The word "precedent" implied a policy change. "Before" it was put by the CFB under the yoke, the Exchange would have been too lenient (the modern theory).[66] An outraged Committee summoned Gerstenberg who lamely stated "his disavowal of any disrespect of the Committee".[67] There would have been a misunderstanding between him and Hyde Clarke, a note would have missed Clarke in office, Gerstenberg would have been "under the impression" that Clarke had received it. He concluded that when it turned out that the letter had been published in the morning newspaper "it did not occur to him that it would be of any purpose to stay its appearance in other papers" (?!). In a subsequent letter, the Chairman of the Exchange Committee expressed "surprise" (Victorian for consternation) and reminded Gerstenberg that the CFB was not LSE's mouthpiece.[68] The episode sheds a new light on the

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Exchange never took the decision to de-list, the de-listing being a by-product of the situation). Incidentally, this Austrian episode is also the source of the frequent confusion found in the literature e.g. in Eichengreen and Portes (1989, p. 15, quoting Jenks (1927) and Feis (1930 pp. 114-5)), that one of the rules of the exchange was to refuse quotation and in "extreme instances to strike from the list all loans of the offending government". As seen in the text, such a rule never existed. In the Autrian case it resulted from a) the Austrian decision to convert the securities and b) the implementation of the listing ban for new securities; Because converted securities disappeared and new ones could not list the "striking of all loans" resulted. Note that even in this case the certificate which the CFB had issued to each bondholder it represented against the Austrian government was still listed.

[65] MS 14600/34, May 10, 1870, p. 146-7

[66] On May 12, however, without waiting for confirmation, after unsuccessfully asking from the Stock Exchange Committee's Chairman the right to print the news,

[67] Gerstenberg position was indefensible: The LSE archive show that he had deliberately forced the hand of the Committee. After the preliminary decision was made, he had approached the Chairman of the Committee asking for the permission to print the information, which the Chairman clearly refused, "explaining … the great inconvenience that might result form such a course the resolution as then passed being subject to addition or alteration and therefore not to be considered as final and binding until they had passed through a subsequent stage". This was the usual way as Gerstenberg knew very well: The waiting period left a time window that could be used to share relevant information resulting on occasions in policy changes.

[68] "I am directed by the Committee for General Purposes of the Stock Exchange to express their surprise at the letters addressed to the Morning Post and the Daily News […] which purport to give the decision of the Committee on the subject of a Memorial f the Committee of the Anglo-Austrian Bondholders. I am also to

well-known proclamation, in the first *Report* of the CFB, that the CFB "benefited by the friendly offices of the Stock Exchange in many occasions". It has been cited previously to imply good relations and that the London Stock Exchange would have been grateful to the CFB for having "relieved" it from "troublesome applications". More plausibly, we are dealing here with a splendid case of British sense of humour.[69]

Section V. Inside Job: Evidence from Ricardos

Given that the London Stock Exchange veto point was valuable one would predict that, way before the CFB was created, some classes of agents set to capture it. One group of agents who was particularly well endowed to succeed was of course the Exchange members themselves. A profiling of the self-styled "Spanish bondholders" who petitioned for the new rule in 1827 showed most signatories to have been Exchange members.[70] The "bondholders" were Exchange members trading on their own account who saw the wisdom of using the Exchange, of whose mechanics they were privy, as a tool to pursue their own goals. What I am arguing here is that the techniques of the veto point provided opportunity for combining bondholders corralling and debt restructuring. The experience of Ricardo's brothers Jacob Jacob "Jack" and Samson provides valuable evidence.

Jack and Samson were partners of a prominent Stock Exchange firm. They were prominent, because they were the brothers of the influential economist (himself a former Exchange member) who had participated in important policy controversies and because Jack was heavily involved in Stock Exchange institutions. He was a usual member of various rule-making committees and of the overarching Exchange Committee (he had been Chairman in 1820).[71] One often comes across Jack's name in the Minutes of the Committee: For instance,

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remark that your council are not justified in making official reference to the proceedings of this Committee on a matter involving important public interests still under consideration", etc.

[69] Feis 1930, p. 115, quoting Report (1873, p. 50). The always reliable Platt (1960, p. 34) quoting Judge Snagge, the chief counsel of the CFB that "the Corporation would be powerless, and the Council would be paralyzed, if it were not for the assistance it received from the Stock Exchange."

[70] In either in the London Stock Exchange or in the Foreign Stock Market. I owe it to Frederic Zumer to have assisted me in the painful task of identifying these individuals. More than a third were members of the Foreign Stock Market (one counts at least 15 Foreign Stock Market members out of 38 names; The counting task is complicated by the difficult handwriting and the presence of siblings, who may legitimately be included within the insiders). The first name on the top of the list of signatures was George Battye a member of the Exchange who failed in mid-1831 reporting "great losses in the twelve months previous to his failure by having invested money in Spanish and Greek Bonds" (General Purposes Committee; Minute Book; 1829-1831 - MS 1460-12, p. 281, 30th July 1831.) The names I could identify as coming from the Foreign Market are: George Battye, Fournier, Gibbes, P.W. Thomas, Eyton, Wm Mello, Elsworth, Alex Goldsmid, Levien, J. L. Du Mont, Mr Ready, Mieville and Chaumette, [Moses] Mocatta, C. Danvers, John Field.

[71] According to Piero Sraffa, who occasionally contradicts himself Jacob (b. 1780) was a member of the Exchange from 1806 (or 1815?) to 1833 and became Chairman at one point (in 1820). Samson (b. 1792) was a member of the Exchange from 1821 to 1859 and worked with his elder brother (Sraffa (1951); see in particular

when Maberly did attempt the listing of his Portuguese loan in 1831 (Jacob Ricardo was sitting in the Committee). Intriguingly, just a few months after the Maberly failed, in November 1831, Ricardos appear again, this time as contractors for their own variant of the Portuguese loan, which they want to list. Just like CFB people would argue in their time, Jack Ricardo claimed that his restructuring did satisfy the bondholders and should be ratified by a LSE listing. The prospectus stated: "*In the contract for this loan, the interests of the bondholders of the Portuguese loan of 1823 have been specially attended to*" (underlined in original).[72]

Discussion ensued and controversy lingered (there were protestations by Maberly through broker Easthope). It is difficult from the documents to judge the respective merits of the Ricardo and Maberly proposals. Anyway, when asked to vote, the Exchange Committee found that "the Regulation of 28th February 1827" did not apply to the Ricardo loan and ruled in favour of listing the new bond.[73] It is obvious that Ricardos' position as insiders of the Stock Exchange was key to their success.[74] They knew the objections that had been raised against the Maberly loan. They were colleagues of David Salomons, the Exchange member who had spoken for the bondholders and against the Maberly proposal (suggestively, the resolution in favour of the Ricardo loan was moved by David Salomons himself suggesting that he had been somehow interested -- bribed?). They even managed to have the Chairman of the Committee himself speaking in favour of their scheme. When the application for listing was made, the Chairman emphasized that this loan "differed very materially from the loan called the Terceira Loan which had been submitted some time since by Mr. Maberly

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section "David Ricardo's Brothers and Sisters"). An illustration of the way David's name reverberated on Jack, we have the language used by Col. Stanhope, chairman of a meeting of Greek bondholders, describing Jack as "a highly respectable man and the brother of a man whom they all knew and esteemed" (Times, September 5, 1826, "Greek Loans")

[72] But the details of the contract were not shown. The subsequent declarations suggested that previous bondholders would be paid out of the money received It was stated that Ricardo had "to the satisfaction of the Committee stated that the interests of the Portuguese Bond-holders has been fully considered in this loan and that it has been stipulated that the arrears of interest die to the Portuguese bondholder shall be secured either in Bonds at the contract price, or in money out of the proceeds of the aid loan", p. 27 GPCMB, MS 14600-13, p. 27, Dec 5, 1831

[73] The debate extended between November 29 and December 19; GPCMB, MS 14600-13, p. 27, Dec 5, 1831.

[74] The strong position of Jacob Ricardo is obvious from the Exchange Committee *Minutes*: From the way the Committee's Chairman's benevolence in stating, when he introduced the loan, that Ricardo had desired him to mention the loan and desired him to mention that the loan "differed very materially" from the Maberly contract (as opposed to having Ricardo making the declarations himself); GPCMB, MS 14600-13, p. 23, Nov 28, 1831. From the lack of contradictory discussion of the accusations made by Ricardo against Maberly; Or again, from the language used by Maberly in his complain against Ricardo's assertions – "such an influential person" GPCMB MS 14600-13, p. 41.

inasmuch as the interests of the Portuguese Bondholder had been properly considered and that he will be benefitted rather than injured by it”.[75]

The same impression exudes from evidence on Ricardos’ Greek dealings. Squarely joining the foreign debt craze of the early 1820s, Ricardos had contracted the second of two Greek loans issued respectively in 1823 and 1825.[76] Their involvement was inglorious: the Greek bonds were defaulted upon. The defaults revealed a long list of wrong doings by intermediaries and Ricardos emerged “with little credit for themselves”.[77] Immediately afterwards however, they reinvented themselves as champions of “commercial faith”, organized the first Greek bondholders’ group, held meetings, and made much noise. As already stated, when Rothschilds applied to the Exchange for the listing of the guaranteed Greek loan in 1832, they displayed strident virtue and argued that imposition of the ban would encourage the Greek Government or the House of Rothschild to do something for the benefit of bondholders of the former one.[78] This was ironic because in a tournament of intermediaries’ honesty there was little to choose between Rothschilds and their 5 London foreign government London loans of which none was in default and Ricardos and their one failed issue.

Searching the *Times* reveals how Ricardos planned this Stock Exchange ambush. In August 1832, as the troika considered providing the new Greek government with a guaranteed loan, a meeting of Greek bondholders to which both Loughnan and Ricardo (the contractors the two defaulted loans) participated. Both had been competing in their efforts to appear minding the bondholders, harassing Lord Aberdeen with little success and giving all the more publicity to their efforts. But with a new loan in sight, Jack Ricardo was eager take the lead and he chaired the bondholder meeting he had called and lectured the audience about the “injustice” of a new loan (bondholders agreed). The trap was set: Ricardos were waiting for Rothschilds around the corner.[79]

Evidence of the value of the Stock Exchange stronghold for whoever managed to control it may be garnered by looking at what happened afterwards. Despite their dismal record as

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[75] GPCMB, MS 14600-13, p. 23, Nov 28, 1831.
[76] This loan, raised with the support of the “Philhellenes” lobby (of which Byron and Bowring were part) to finance the insurgent Greek government ended up in default and tainted the credit of all those who had been involved “emerging with little credit for themselves” Sraffa (1951, brothers and sisters…). For details on the episode, see Jenks (1927 pp.) For details on Ricardo and the French loan, see Gille (1966).
[77] From economist J.-B. Say, quoted by Piero Sraffa.
[78] See above, GPCMB MS 1460-13. pp. 269-70.
[79] On the August 1832 meeting, see The Times, Aug 24, “Greek Bonds”. Letters by Loughnan were reproduced in The Times, e.g. April 3, 1830. Perhaps reflecting the fact that Loughnan also instructed the Exchange of his efforts, they are reproduced in SE Archive, Satterthwaite, MS 17961.

underwriters in the 1820s, Ricardos managed not only to remain active in the market for foreign government debt afterwards but surprisingly, to step up their presence, contracting 4 loans out of the 10 that came out in the London Stock Exchange between 1826 and 1840 (and of course, the four loans they issued were for former defaulters Portugal and Spain whose market access they helped restore).[80] This is significant because, as my research with Flores has shown, all the intermediaries who had underwritten defaulting securities during the first half of the 1820s (1820-1825) were kicked out of the market in the subsequent phase (1826-1840).[81] Ricardos' record was thus an exception. And their achievements were even more intriguing, because Stock Exchange firms were not usually major players in the market for foreign debt – a market dominated by merchant banks exploiting private information from trading connections with foreign correspondents and local governing elites.[82] Evidently, the knowledge that enabled the Ricardo brothers to succeed was that of the workings of the Stock Exchange "Court of Justice".[83]

But this was of course a story that was more difficult to tell publicly. And thus, instead of talking of the value of intimate knowledge of the Stock Exchange veto, Ricardos, like more recent economists, spoke of the defense of bondholders echoing the proclamations of the "Spanish Bond Holders" of 1827 who had emphasized that the matter they dealt with was not egoistic but also relevant "to every person engaged in commercial or financial transactions, and most especially to every member of the Stock Exchange, all confidence in their transactions, whatever amongst themselves or on behalf of the public, resting as it does solely on the inviolability of commercial faith."[84]

Section VI. Interlocking Bondholders

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[80] There were three Portuguese loans (1831, 1832 and 1833) and a Spanish loan in 1834 (with Ardouin). This specialization in risky debt was understood by contemporaries. *The Times* for instance wrote in 1833 about Ricardo's loans to Portugal using the following language: "The loan is brought forward by most respectable men, the Messrs. Ricardo, and offered at terms adequate to risk, for it is not denied that there is a great risk" *The Times*, 1833, January 4, p. 2. For Ricardo as sellers of Junk bonds see Flandreau and Flores 2009, p. 674. The critical thing to understand is that in principle, a seller of bad securities owns no market power. Ricardo's market power may have originated in their senior position with the Exchange.

[81] See Table 7 in Flandreau and Flores (2007, p. 52)

[82] E.g. Chapman (1984) and Suzuki (1994). Data in Flandreau and Flores (2009) supports this view. In 1823, Ricardos had bet unsuccessfully against Rothschilds for a French loan and again in 1831 for a Belgian loan.

[83] This makes of Ricardos forerunners of vulture funds such as Dart and Elliot Associates. Gulati and Scott (2013, p. 136) write about similar activities of one Church in Bolivia in 1871, "perhaps this was one of the first instances of a holdout creditor in a sovereign workout". Ricardo provide a much earlier and as shall be seen not isolated, other case. Gerstenberg's plan of 1868 whereby any underwriting firm would have to apply to the bondholders Council to receive advice and supervision in the design of the contract and prospectus before securing clearance from the Exchange Committee followed a very similar logic; Gerstenberg (1869), "Report of the Committee", p. 4.

[84] MS 14617, 1, p. 402, February 23, 1827.

It is not surprising, given the above, that the development of bondholder committees coincided with the aftermath of the foreign debt debacle of 1825-26. An early bird was the Committee of Greek Bondholders set-up by a meeting at the City of London Tavern on September 4th 1826, which decided to appoint a working party to inquire into the use of the funds raised to provide insurgent Greeks with two ships, yet to be built.[85] A latecomer was the Committee of Mexican Bondholders, which met for the first time on May 26, 1830 (at London Tavern, too).[86] According to Dawson (1990, p.195) bondholders' meetings were commonly spotted after 1827, which is logical given that this is when the no-default rule was created. This occurred amidst already conventional references, by group promoters, to bondholders' "apathy" and the need to organized them (which construed promoters as good Samaritans).

Because dealing with defaulted debt required forms of expertise complementary to mastery of the Exchange veto technology, the clique of bondholder leaders associated to London Stock Exchange members a variety of other insiders. For instance, local information regarding the standing of governments, local politics, and the attitude of parties and the executive towards foreign creditors was useful, explaining why a handful of merchant bankers such as former Colombian loan contractor John Diston Powles are spotted. Another useful resource was access to the British political system, which provided valuable insight on British policy and pronouncements towards the defaulters. This explains the involvement of a number of MPs, politicians and more generally people with social visibility (e.g. Francis Burdett who had been a member of the Philhellenes committee in the 1820s or Admiral Provo Wallis a War of 1812 hero).

It is no exaggeration to talk of "professional bondholding". A few wealthy individuals literally specialized in this trade. Their actions resembled those of modern funds involved in sovereign distressed debt. Take for instance, Richard Thornton, whom we spotted in the 1820s as member of the Committee of Greek Bondholders and again in 1862 as a Venezuelan bondholder. This is how David Morier Evans described his trade in 1845: Thornton's fortune (which was enormous) had been made through the gentleman's "successful operations in this article" (foreign countries' debt). "He is a very large holder of Portuguese and Spanish Stock [both in default at that date], which the public may suppose, by finding him generally placed in the Chair at the meetings of the Bondholders; and great service he has done them in the advocacy of their cause, and the handsome manner in which he has placed part of his

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[85] *Times*, September 5th, 1826 "The Greek Bonds".
[86] Costeloe, (2003: 28)

counting-house at Old Swan at their disposal for the consultations of their Committee. On one occasion, being questioned about the amount of Portuguese Stock he held, he replied, that it was somewhere about 400,000£. He said he was of course very anxious that Portugal should make a settlement of her debt, for the sake of the general class of Bondholders; but he himself was not in a hurry for the dividends, for though Portugal was in bankrupt circumstances he was not. This was stated in perfect good temper, and was, no doubt, perfectly correct".[87] Like Thornton "the greatest of the great' of our city men" (Morier Evans), J. D. Powles was famously described in Disraeli's *Vivian Grey* under the traits of a "Mr Million", the archetype of the *nouveau riche*.[88] In contrast to the myth of the destitute bondholder, bondholding (at least provided one was a leader) conferred wealth – and that longevitythat goes with peace of mind: John Diston Powles died at 80. Richard Thornton at 89. Admiral Provo Wallis holds a record, at 101.

Because the Stock Exchange disenfranchised minorities, it was key for these professional bondholders to be united. This is how I interpret the early and successful efforts made at to create large bondholding structures. A meeting held on May 1st, 1828 regrouped holders of "Mexican and South American bonds".[89] This eventually led to creation of the "Spanish-American Bondholders Committee" in 1836.[90] The Committee of Spanish American Bondholders was intended to represent the interests of all creditors of Latin American states, using arguments (apathy vs. collective action, etc.) that previewed CFB's narrative.[91] Beyond this, one striking aspect of early committees is the extent to which they were interlocking with one another: Individual country committee members did sit on each other's country committee in patent contradiction with the theory of the split bondholders.[92] Also, it appears that bondholding was a family business. Very often, we find several members of the same

87 David Morier Evans (1845, p. 154-5). In 1845 the total external debt of Portugal (nominal) was …; Thornton left behind him what estate figures suggest was one of the largest fortunes of the 19th century: Total Wealth, probate value largest fortune left in Britain before 1870. Oxford Dictionary of National Biography. Volume 54 . page 639. Oxford, UK: Oxford University Press. 2004

88 Malcolm Deas, "Powles, John Diston (1787/8–1867)," in Oxford Dictionary of National Biography, ed. H. C. G. Matthew and Brian Harrison (Oxford: OUP, 2004) (Disraeli's nascent literary talents had been used by J. D. Powles during the foreign debt bubble of the 1820s).

89 Dawson (1990, p.164); Times, May 2, 1828; "A meeting of the holders of Mexican and South American bonds…"; The meeting was intended to "require or request assistance of Government in procuring the payment of the bonds"

90 Dawson (1990), Costeloe (2003). For a "partisan" view of the emergence of the Spanish-American Committee, see Committee of Spanish American Bondholders (1866) who dates the take off of the Spanish American group in 1830.

91 The most exhaustive account of the history of the Spanish American Bondholders is provided by Costeloe (2003 :177 ff) ; See also Dawson, (1990, p.195).

92 Historian Costeloe noticed the overlap between the Spanish-American Committee and the Mexican Committee (the subject of his study) and appears to have thought that this was a specific feature of his object. But as I found, what Costeloe identifies for Mexico was a general pattern that extended beyond Spanish-American countries.

family involved in bondholding (such as relatives of Thornton, for instance) which gives the impression of an insider, clique-like behavior.

Drawing from the period from 1845 to 1868 one can get a sense of the concentration and persistence of the foreign bondholding clique.[93] A short list of prominent individuals is found simultaneously in virtually all bondholders Committees. There are at most a dozen names: John Diston Powles, John Field, Edward Haslewood, Joseph Tasker, William Parish Robertson, George R. Robinson and Richard Thornton. This is a short list, given the large number of countries and years. Consider this: John Diston Powles is spotted in the Greek,[94] Venezuelan,[95] Mexican,[96] Colombian,[97] Peruvian,[98] Buenos Aires,[99] groups and was a long time chairman of the Spanish American Committee.[100] John Field (our friend the Chairman of the 1862 Venezuelan meeting who seems to have been Powles' man) is listed within Greek,[101] Venezuelan,[102] Buenos Aires,[103] Ecuador[104] and Spanish American Committees.[105] Edward Haslewood repeatedly occupies positions with Greek,[106] Peruvian,[107] Argentinean,[108] Ecuador,[109] and the Spanish American Committee.[110] For good measure, I also came across one Haslewood as fixer of a delicate Honduras application before the London Stock Exchange

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[93] For reasons that would require investigation, my query yielded for those years many committee announcements of bondholder meetings. Some of the them were undersigned by the members of the said Committee, with occasional indications of roles (Chairman, Secretary etc.); In other cases, a summary description of the meeting yielded less systematic information such as statements by some committee members or indications of who was the chair. For simplicity, I have considered that meeting chairmen and committee chairmen were but one person. Another source for this research was the collection of pamphlets and bondholder publications kept with the Church Collection at Hay library, Brown University.
[94] *Times*, September 22, 1863.
[95] *Times*, March 5, 1850, November 7, 1851, July 21, 1852, passim afterwards (chair in 1857, 1859, 1862).
[96] Costeloe (2003, index).
[97] *Times*, March 8, 1853
[98] *Times*, January 5, 1849.
[99] See Committee of Spanish American Bondholders (1854), (1856)
[100] *Times*, September 20, 1856, Committee of Spanish American Bondholders (1866).
[101] *Times*, September 22, 1863.
[102] *Times*, passim 1850s and 1860s, chairman 1859-62.
[103] See Committee of Spanish American Bondholders (1854), (1856)
[104] Anonymous (1853) and (1854).
[105] Committee of Spanish American Bondholders (1866).
[106] *Times*, Nov 8, 1862, June 24, 1863, June 26, 1863, September 22, 1863, several entries in April 1867, October 16 1867, November 14 1867, November 27, 1867. In the early 1870s, Greek Bondholders are represented by Hyde Clarke (e.g. March 15, 1877), but on March 20, 1877 *Times* prints: "It would appear that Greek Bondholders have formed a independent Committee of their own" and mentions one Clement A. Haslewood as "secretary" (he would have had a disagreement with Hyde Clarke).
[107] Times, May 30, 1864.
[108] Technically, the debt was that of "Buenos Ayres" (an independent state until the city was federalized and united with Argentina of whom it became a capital in 1880). See Committee of Spanish American Bondholders (1854), (1856).
[109] Anonymous (1854).
[110] Committee of Spanish American Bondholders (1866).

in 1868[111] and discovered handwritten trace of his interest in Spanish debt Committees in the personal library of a famous trickster involved in foreign debt (Colonel Church).[112] There also exist other names that come up often, if less frequently. They are always spotted in at least several groups. This is the case, for instance of one Elias Mocatta, (another longevity record – 92 years), son of one of the signatories of the 1827 Spanish Bond holders petition: him I find among Greek,[113] Ecuadoran[114] and Spanish[115] committees. Reflecting the tendency for bondholding to be a family business, I came across one Albert Ricardo as a prominent Greek Committee member in the 1860s.[116] Last, like it or not, this is where history first gets to know of Isidor Gerstenberg: His name crops up with increasing frequency during the 1860s notably in relation to Venezuelan and Mexican Committees. These were two Committees where John Diston Powles had been very active. As I found, Powles died in 1866 – the precise year when Gerstenberg launched his proposal: I stop here, as this is material for an economist with Sherlock Holmes' inclinations. The general economist will simply conclude that there goes the myth of the split bondholders.

Conclusion

My reinterpretation of the history of debt markets in the 19th century has provided a new focus. I am placing the London Stock Exchange at the centre of the tale. It was the availability of the London Stock Exchange and Stock Exchange institutions that permitted, organically, the rise of bondholder coordination at an early date and in this sense, this experience was a prologue to a statutory approach to international financial reform. The sovereignty of the Exchange and public knowledge that its executive body had the power to set rules made it vulnerable to public criticism and this encouraged action, explaining why the no-default catch was introduced in 1827 in the aftermath of the foreign debt crisis. The petitioners of 1827, who were members of the Exchange, knew very well about this weakness explaining why they grafted a "public good" dimension to their proposal: The Committee accepted this presentation and stated that their resolution was for the "better protection of the interests of the members of the Stock Exchange, and the public in general". This language was duly

[111] GPCM, MS14600/32, 12 December 1867: "Honduras Government Railway Loan", p. 17.
[112] The copy of Committee of the Holders of Spanish Bonds (1853) held by Hay library at Brown has a handwritten mention "Edward Haslewood Esquire with Joseph Tasker's Best Compliments." It is unclear what this precisely means but as the collection comes from Church, an (in)famous foreign debt contractor, the link between Church and Haslewood is intriguing.
[113] *Times*, September 22, 1863.
[114] *Times* June 18, 1851.
[115] Committee of the Holders of Spanish Bonds (1853)
[116] *Times*, June 26, 1863 ; September 22, 1863, etc.

reproduced and emphasized by *The Times*, most probably at the Exchange's request.[117] The approving tone adopted by the newspaper towards the decision to exclude defaulters reveals that *a contrario* there would have been reputational damage for the Exchange if it had not done something.

The rest may be seen as having followed implacably from thence. The mere availability of the Exchange Committee provided a standard mechanism for addressing problems of free riding. Some individual brokers or jobbers may have had specific incentives to facilitate the listing the bonds of certain defaulting states (for instance if they had a long position) but the Committee represented the collective credibility of intermediaries and was more apt to impose some standards. As illustration of how possible individual contradictions were resolved by collective action institutions, I found that Capel changed his mind about Greece in two subsequent votes and Salomons objected to a Portuguese listing in 1831 yet supported a Greek one in 1833.[118] But the committee held the ground and every time, in the previous examples, an Exchange member who took a dovish line was put in minority.

Likewise, the adoption of (qualified) majority voting as the acid test of a "satisfactory arrangement" may be understood as a natural consequence of the centrality of the Stock Exchange and Exchange Committee. Unanimity (which those who criticized the Exchange for being dovish implicitly supported) would have given veto power to anyone holding a bunch of securities, effectively removing authority to the Exchange. Majority decision-making, by contrast, ensured that power remained with the Exchange Committee.[119] This is how the Exchange, owing to its specific "extraterritoriality" position in British polity, became a kind of international court of justice or perhaps more adequately court of arbitration.

The next stage, as we have seen, was the setting up of structures intended to capture the decisions of this court – the Exchange veto point. From 1827 onwards, the temptation existed and it led to bondholding specialists (who look very much like anticipation of modern vulture

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117 MS 14617, 1, p. 407, The Times described the vote as a "considerable majority" *Times*, March 1, 1827. Both on February 28th and March 2nd, we get indications of "considerable discussion".

118 Historians of the London Stock Exchange have emphasized that the Committee for General Purposes, which represented users (i.e. brokers who lived on commission) and controlled the making of rules, generally voted in favour of some regulatory standards for fear that doing otherwise would have "discouraged [investors] from holding, buying and selling securities" See Michie (1999), pp. 46-8

119 The Exchange provided a pragmatic solution to a problem that had been identified in the early stage of debt negotiations. Initially, committees were not considered by policy makers as having the authority to make a decision "on behalf" of the bondholders. It was felt that minorities might obstruct, and that as a result, unanimity was required. At a time when distances were complicated by primitive transportation, this seemed to be an enormous obstacle for foreign debt. An interesting anecdote in Costeloe (2003 p. 168) that during an early meeting of Mexican bondholders, the view was taken that "any agreement to release the Mexican government from responsibility of any kind, must have the assent of every individual Bondholder; an object which is, under these circumstances, utterly unattainable".

funds) to coalesce and control the road to the Stock Market listing prize. Ricardos were an early example (another legacy of the family to modern economics?), and so were Thornton and Diston Powles during the 1830s, 1840s, 1850s and 1860s. Gerstenberg was the latest avatar of this by now age-old technique: One irony is that for one of its first alleged show of "unity" (the exclusion of Austria's converted securities), the London holders of Austrian debts were really a tiny minority.[120] In truth, this was a case of a holdout *minority* creditor in a sovereign workout![121] This understanding Gerstenberg the Magician managed to delay for 150 years with his successful tale of the ogre of free riding.

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[120] As one finds in de Mülinen (1870) the share of Austrian debt that was owned in London was only 2% at the time of the 1869-70 showdown.

[121] This may explain why Beust, while he was concerned with the non-listing of Austrian securities in London, non Wynne, William H., and Edwin M. Borchard. 1933. Foreign Bondholders Protective Organizations. Yale Law Journal 43: 281–296.etheless decided to move forward.

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