

# European Corporate Debt Private Placement Nordic Capital Market Forum

Oslo 20 September 2018



## ICMA Mission...

- **...to promote resilient and well functioning international debt capital markets,** which are necessary for economic growth, and benefit market participants and their clients alike.
- ...working actively with its members in all segments of the wholesale markets, buy and sell side, **ICMA focuses on a comprehensive range of regulatory, market and other relevant issues which impact market practices and the functioning of the international debt capital markets.**
- ...the full mission statement is available on ICMA's website:  
<http://www.icmagroup.org/About-ICMA/>

## ECPP Objectives...

To facilitate the development of a dynamic pan-European private debt market that...

- ...enshrines market standards in areas such as transparency, expectations, risk management and documentation
- ...attracts, and provides diversification for, institutional investors
- ...increases the availability of finance for a wide issuer base, particularly medium-sized corporates, as well as larger corporates seeking to diversify their funding mix
- ...provides an alternative and a bridge between the European loan and public debt markets
- ...benefits from an optimal regulatory, legal and tax environment
- ...promotes capital market integration across the EU (CMU) and
- ...to reduce over-reliance on bank funding and support financial stability during periods of economic crisis.

## The European Corporate Debt Private Placement (ECPP) Joint Committee

Allen & Overy LLP

Ashurst

ASMEP-ETI

Association of Corporate Treasurers

Association for Financial Markets in Europe (AFME)

Association Française de la Gestion financière (AFG)

Association Française des Investisseurs Institutionnels (Af2i)

Association Française des Marchés Financiers (AMAFI)

Association Française des Trésoriers d'Entreprises (AFTE)

Aviva Investors

Banca IMI

Banque de France (Observer)

Bank of America Merrill Lynch

Bank of England (Observer)

Bank of Italy (Observer)

BNP Paribas

Bundesverband Öffentlicher Banken Deutschlands, VÖB

CMS

Comité de pilotage de l'Euro PP

Confederation of British Industry (CBI)

Commerzbank

Crédit Agricole CIB

Delta Lloyd

DLA Piper

Egan-Jones Rating Company

European Commission (Observer)

European Private Placement

Association (EU PPA)

Fédération Bancaire Française (FBF)

Fédération Française des Sociétés d'Assurances (FFSA)

Fédérés Gestion d'Actifs

French Euro Private Placement (Euro PP) Working Group

French Trésor (Observer)

Gemma and Partners, Tax and Law Firm

Gide Loyrette Nouel AARPI

Grimaldi Studio Legale

Groupement des entreprises mutuelles d'assurance (GEMA)

Herbert Smith Freehills

Hogan Lovells

HM Treasury (Observer)

ING

International Capital Market Association (ICMA)

KBC Group

Kings & Wood Mallesons

Kramer Levin Naftalis & Frankel

LGIM

Linklaters

Lloyds Banking Group

Loan Market Association (LMA)

Loyens & Loeff

M&G Investments

Mouvement des entreprises de France (MEDEF)

Muzinich

National Australia Bank Limited

Natixis Asset Management

Paris Europlace

Paris IDF Chamber of Commerce and Industry

Santander GCB

Slaughter and May

Société Générale

Stifel Nicolaus Europe Limited

S&P Global Ratings

TheCityUK

The Investment Association

The Royal Bank of Scotland

White & Case

## European Corporate Debt Private Placement Market Guide...

- ...a non-binding framework enshrining best practice for private placement transactions, all based on common market practice, principles and expectations of the key parties
- ...sets out the main processes to be undertaken when entering into a private placement transaction, the roles and responsibilities of the parties, recommendations for borrower's information, key economic and legal terms, due diligence and disclosures, and links to documentation
- ...includes general principles and recommended best practices for amendments or waivers to private placement transactions
- ...also sets out a description of Schuldschein (SSD) and identification of key points of SSD convergence with private placement and
- ...includes certifications required for UK withholding tax exemption.

## Characteristics of Private Placement..


- A *medium* or *long-term debt financing* transaction between a *listed or unlisted company* and a *small number of institutional investors*, usually with the participation of an *arranger bank intermediary*.
- No rating requirement
- Investor profile
- Negotiation of terms
- Tradeability
- Status, *pari passu* ranking
- Bespoke disclosure, due diligence and on-going reporting
- Flexible structures
- Documentation formats

## Existing markets...

- USPP market – very well enshrined and developed
- 2017 issuance – domestic and cross border \$81 billion
  
- Schuldschein (SSD) – very well established
- 2016 issuance €25b; lower levels forecast for 2017
  
- Euro private placement – fledgling market
- 2017 issuance €4.2bn to €7.2bn
- 2016 issuance €8.1bn; 132 deals, smaller transaction sizes



## Advantages for Issuers (1)...

- Cost efficient
  - Competitive pricing
  - No listing requirement
  - No external rating requirement
  - Documentation
  - Flexible covenants
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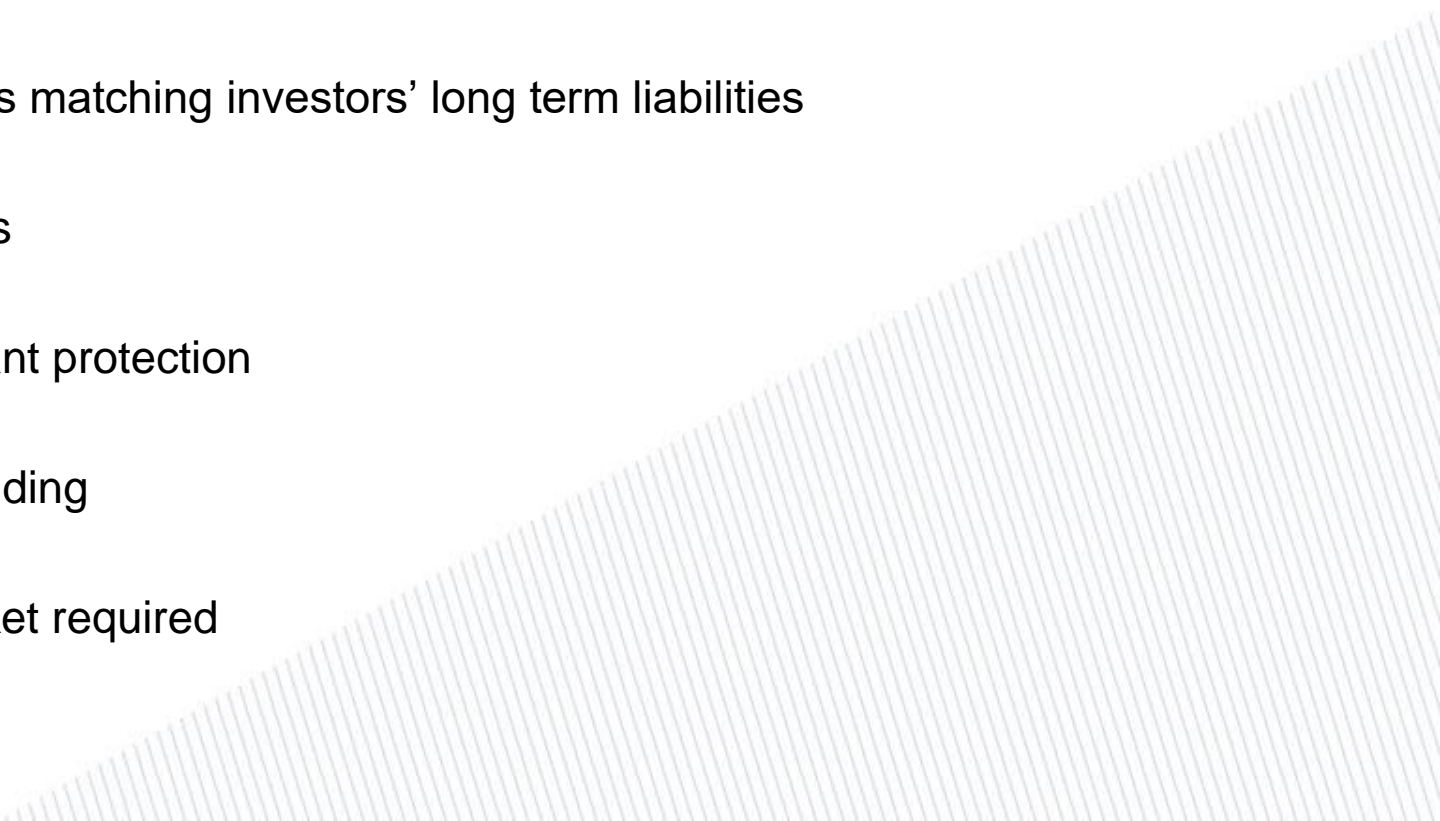


## Advantages for Issuers (2)...

- Processes
  - Small issue size
  - Funding sources
  - Investor base
  - Public markets
  - 'Private' nature of markets
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## Advantages for Investors...

- Diversification
  - Attractive yields and spreads
  - Longer maturities matching investors' long term liabilities
  - Low default rates
  - Bespoke covenant protection
  - Relationship-building
  - No mark to market required
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## Challenges...

- Credit analysis
  - Ongoing costs
  - Skills and resources
  - Liquidity
  - Awareness
  - Rating
  - Suitability for certain transactions
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## Risks...

- Issuer credit risk
  - Counterparty credit risk
  - Market risk
  - Liquidity risk
  - Regulatory risks
  - Legal/geographical risk
  - Jurisdictional issues
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## Risk mitigation...

- Substitute rating
  - Due diligence/financial covenants
  - Communication
  - Solvency II issues
  - Amendments & waivers
  - Secondary market liquidity
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## Innovation...

- Private placement funds
  - Green private placement
  - Ratings
  - Platforms
  - Secondary market platforms
  - Blockchain
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## Next steps...

- ...continue to encourage revisions to the final calibrations for insurers of the spread risk capital weighting treatment of ECPP under Solvency II
- ...monitor fast-moving developments in FinTech and innovation
- ...promote and raise awareness of ECPP as an alternative to bank lending and as a bridge to listed debt market finance, and
- ...ensure continued self-regulation - updating the Guide and documentation as the market develops and evolves.