



Contingent Convertible Bonds (CoCos) International (Eurobond) Market

Information and processing flow for loss absorption
mechanism within the ICSDs

December 2014

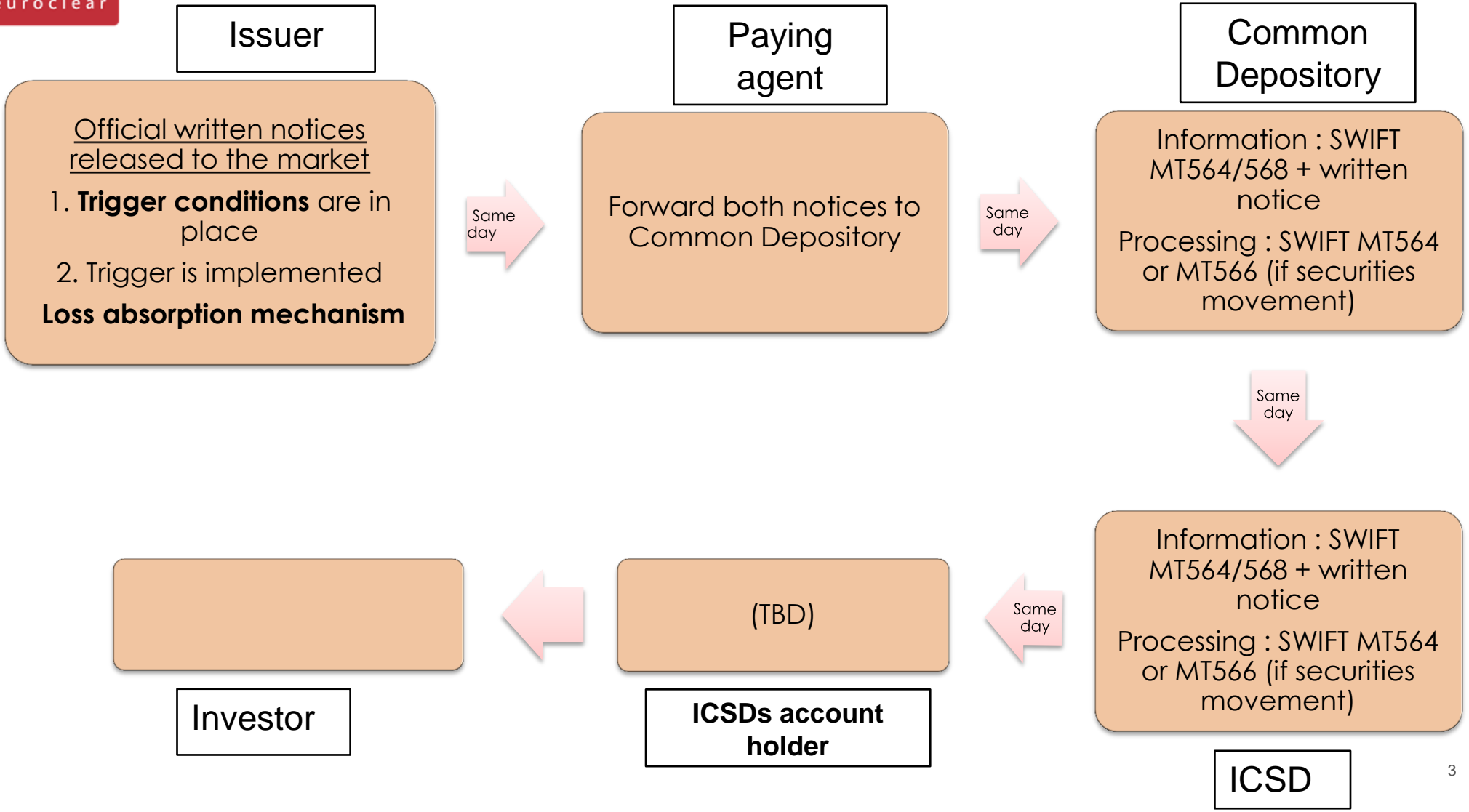


Basic recommendations

- ❑ **CoCos must be detected and flagged at issuance in the ICSDs security database** to ensure proper operational treatment when the trigger event is being implemented. (e.g. loss absorption mechanism)
- ❑ Loss absorption notices (written and SWIFT) must be sent same day as receipt by all party involved (issuer, paying agent, common depository, ICSDs)
- ❑ SWIFT Notifications must advise the effective date in ISO field 98A: EFFD
If applicable the SWIFT must also mention the payment date
- ❑ **Partial or temporary write down must be done via reduction of pool factor** (unless exception) instead of nominal reduction; Consequent write up must be calculated by increase of pool factor as well
- ❑ The exceptions have to be managed on a case by case basis
- ❑ Cash received (if any) after the trigger event will be flagged by the ICSDs and paid out upon receipt of funds (URF)



Ideal information and processing flow





4 main scenarios of loss absorption mechanism

1) Full and **permanent write down**

2) Full and **permanent conversion to equity**

3) **Partial** and **permanent write down**

4) **Partial** and **temporary write down** (with option to write up again)



1. Full and **permanent write down**

- Information : SWIFT MT564/568 with CAEV **MCAL**
Free narrative text refer to the official notice
Cash credit with zero amount in SWIFT field 19a::ENTL
- Processing : Full mark down – SWIFT MT566 **MCAL**
Security code to be cancelled
Cash credit with zero amount in SWIFT field 19a::PSTA

2. Full and permanent **conversion to equity**

- Information : SWIFT MT564/568 with CAEV **CONV**
Free narrative text refer to the official notice
- Processing : Mandatory conversion - SWIFT MT566 **CONV**



3. **Partial** and **permanent write down**

Reduction of pool factor

- Information : SWIFT MT564/568 with CAEV **PRED**
Free narrative text refer to the official notice
- Processing : Decrease of the pool factor – SWIFT MT564/568
with CAEV **PRED**
Pool factor reduction referenced in related MT564 ISO field

SWIFT ISO field to use for pool factor change :

*Old pool factor (before partial redemption): **92A::PRFC//**

*New pool factor (after partial redemption): **92A::NWFC//**



4. **Partial and temporary write down** (with option to write up again)

Reduction & increase of pool factor

Write down

- Information : SWIFT MT564/568 with CAEV **PRED**
Free narrative text refer to the official notice
- Processing : Decrease of the pool factor – SWIFT MT564/568
with CAEV **PRED**
Pool factor reduction referenced in related MT564 ISO field



4. **Partial and temporary write down** (with option to write up again)

Reduction & increase of pool factor

Write up

- Information : SWIFT MT564/568 with CAEV **CAPI**
Free narrative text refer to the official notice
- Processing : Increase of the pool factor - SWIFT MT564/568
with CAEV **CAPI**
Pool factor increase referenced in related MT564 ISO field