



BULLETIN – 150623/33

ICMSA Bulletin - Guide to the Treatment of Denominations and Related Exchange Conditions

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This bulletin updates BULLETIN – November 2006 - Guide to the Treatment of Denominations and Related Exchange Conditions

1. Introduction

The purpose of this updated document is to clarify how Clearstream Banking Luxembourg and Euroclear Bank (the “ICSDs”) treat the denomination(s), transferable amounts and the tradeable amounts; as well as the exchange of securities from global into definitive form.

Please note that the scope of this document only covers bearer or registered securities primarily issued through and held directly with one or both of the ICSDs (i.e. XS ISINs relative to debt instruments and local ISINs relative to non-debt securities).¹

This document will also clarify other aspects relating to how to treat denomination(s), transferable amounts and tradeable amount on structures that allow for partial redemptions, payment in kind (PIK notes) etc.

2. Transferable / Tradeable Amount

The terms “transferable amount” and “tradeable amount” are deemed to be synonymous to each other (they will be interpreted by the ICSDs as the minimum quantity of securities that can be transferred between two ICSDs participants) and will be treated the same by the ICSDs when populating related security data in their respective databases.

A transferable amount / tradeable amount can only exist over and above the specified denomination(s) of an issue which will be monitored alongside the specified denomination for the life of the security whilst it is held within the ICSDs.

Example of a Transferable / Tradeable Amount with a Specified Denomination with higher Integral Multiple thereafter:

The Issuer determines a total nominal amount of EUR 50,000,000 and defines a transferable / tradeable amount of EUR 500,000 with a specified denomination of EUR 100,000 and integral multiples of EUR 1,000 thereafter. In this example, the ICSDs will only settle instructions that are equal to or greater than EUR 500,000 and that are divisible by multiples of EUR 1,000

¹ Section 5 only relates to bearer securities due to requirements associated with being on security printed paper.



Validation rule applied

A document should not reference a transferable amount / tradeable amount alone; it must also specify the denomination(s) and any integral multiple(s) that can be issued.

The ICSDs will only permit settlement of instructions when the amount of securities to be delivered is at least equivalent to the transferable amount / tradeable amount and divisible by the denomination (or integral multiple thereof). Instructions to deliver an amount of less than the transferable amount / tradeable amount or not divisible by the denomination (or integral multiple thereof) will be rejected.

The ICSDs are often requested to create an issue with a minimum “initial” transferable / tradeable amount and / or minimum subscription amount(s) that, after the closing date or a pre-determined period, is no longer required by the Issuer. The inclusion of such terminology in the documentation is not acceptable. The ICSDs will not take responsibility for monitoring this trading aspect and therefore strongly suggest the use of such terminology is not included in issuance documentation. Any delays in settlement or claims arising from the late removal of such minimum “initial” transferable / tradeable amount and / or minimum subscription amount(s) will not be the responsibility of the ICSDs.

3. Denominations

There are three basic treatments of denomination(s) that are commonly seen within the Terms and Conditions of a security. Where no minimum transferable / tradeable amount exists, the minimum denomination(s) will be treated in the same manner as the minimum transferable / tradeable amount.

Each one will be addressed and illustrated independently to identify clearly the methodologies followed by the ICSDs when populating related security data in their respective databases.

3.1. Single Denomination

The Issuer determines the total outstanding indebtedness amount of the issue (the “total nominal”) and defines a single denomination to be used by all market participants.

Validation rule applied

The ICSDs will ensure that the denomination is wholly divisible into the proposed total nominal. If not, the Issuer will be requested to amend the proposed denomination prior to acceptance by the ICSDs.

3.2. Several Denominations

The Issuer determines the total nominal and defines two or more denomination(s) to be used by all market participants.

Example of a Single Denomination:

The Issuer determines a total nominal amount of EUR 50,000,000 and defines a single denomination amount of EUR 100,000. In this example, the ICSDs will only settle instructions in multiples of EUR 100,000.

Example of Several Denominations:

The Issuer determines a total nominal amount of EUR 50,000,000 with denomination(s) of either EUR 1,000, EUR 10,000 or EUR 100,000. The value of EUR 1,000 will be treated as the minimum denomination. The ICSDs will settle instructions only in multiples of any of the specified denomination(s).



Validation rule applied

The ICSDs will settle instructions only in any single denomination or any combination of the denomination(s) stated in the Terms and Conditions².

3.3. Minimum Denomination and higher integral multiples thereafter

The Issuer determines the total nominal and defines a minimum denomination with higher integral multiples in a lesser amount thereafter. This treatment is generally used to comply with wholesale selling restrictions such as the amended Prospectus Directive & Transparency Directive.

Validation rule applied

The ICSDs will ensure that the higher integral multiple amount is wholly divisible into the total nominal amount of the issue. The ICSDs will only permit settlement of instructions when the amount of securities to be delivered is at least equivalent to the minimum denomination unless a higher minimum transferable / tradeable amount exists³.

Example of a Minimum Denomination with higher integral multiple thereafter:

The Issuer determines a total nominal amount of EUR 50,000,000 and defines a minimum denomination of EUR 100,000 and integral multiple of EUR 1,000 thereafter. In this example, the ICSDs will only settle instructions that are equal to or greater than EUR 100,000 and that are divisible by multiples of EUR 1,000

4. Application of denomination and / or transferable / tradeable amount within the ICSDs

4.1. Resulting Balances

The validation rules implemented by the ICSDs are solely based on the actual nominal amount of the instruction and are not based on the customer's resulting balance that will remain post settlement of the proposed transaction. It is therefore possible that positions of less than the minimum denomination or minimum transferable / tradeable amount could result, thus leading to further delivery instructions being blocked for settlement. It is the noteholder's responsibility to ensure that they adhere to the relevant specified minimum denomination or minimum transferable / tradeable amount.

4.2. Multiple Settlement Delivery Amounts

The ICSDs settle deliveries and receipts of securities according to the instructions of their customers, which do not necessarily contain all trade details. The trade information details are not mandatory for matching or settlement and, in any case, do not include a field for the trade amount where this differs from the delivery amount. This means that, for example, in the case of a trade being settled by multiple deliveries from more than one position, the ICSDs have no way of determining the amount of the combined trade and cannot be held responsible for such trades handled in this manner.

² Where an issue is composed of several denomination amounts, the ICSDs expect that, upon an exchange from global to definitive form, a sufficient number of definitive notes of each denomination will be printed to allow for physical settlement and also to avoid physical realignment problems between the two ICSDs.

³ See Section 5 for details of the denomination(s) that are permitted in the relevant scenarios where exchanges to definitive notes may take place.



5. Exchange from global to physical (definitive) notes

The four principle events that have been identified in issuance Terms and Conditions related to exchanges from global note to definitive notes are:

- a) Closure of one or both ICSDs;
- b) Default of the Issuer;
- c) Exchange from a global note at the option of the Issuer due to adverse tax consequences;
- d) Exchange at any time at the option of the noteholder / Issuer other than due to adverse tax consequences⁴.

Taking each of the above in turn:

- a. Closure of one or both ICSDs

This was deemed to be an unlikely event and if such an event were to occur, it had been agreed that a “market meltdown” situation would be encountered. This has been interpreted to mean that the printing of definitive notes would be of the least concern to noteholder(s) and ICSD participants. The ICSDs therefore agreed that, when such clauses appear in new issue documentation, such issues would be accepted with a minimum denomination and higher integral multiples in a lesser amount thereafter.

- b. Default of the Issuer

This is deemed to be a more likely scenario than (a) but, if it were to occur, the Issuer would be unlikely to have the funds to pay for the printing of definitives and the liquidators or administrators appointed to oversee the issue would not allocate funds to pay such printing as a priority task. Therefore, when such clauses appear in documentation, the ICSDs would accept issues with a minimum denomination and higher integral multiples in a lesser amount thereafter.

- c. Exchange from a global note at the option of the Issuer due to adverse tax consequences

In order to limit the exchange scenarios relating to “adverse tax consequences”, if the documentation identifies that such adverse tax consequences are due to actual / proposed legislative changes in the domicile of the Issuer, the ICSDs would accept issues with a minimum denomination and higher integral multiples in a lesser amount thereafter.

In all 3 cases above, in the extremely unlikely event that definitive notes are required to be printed, the Issuer will be responsible for printing an adequate number of notes in the specified denomination(s) of the possible permutations. To illustrate, where the specified denomination is expressed to be a minimum of EUR 100,000 with higher integral multiples of EUR 1,000 up to a maximum of EUR 199,000; definitive notes would need to be printed in amounts of EUR 100,000, EUR 101,000, and EUR 102,000 etc. up to EUR 199,000. No notes should be issued with a denomination above EUR 199,000.

⁴ When exchanges into bearer definitive form are contemplated at the option of the noteholder, Issuers should be cautious in such an exchange when providing very small denomination(s). The potential logistical and cost implications in such scenarios should be carefully considered.

Once definitive notes are issued in such cases and are physically withdrawn from the ICSDs the transferable / tradeable amount can no longer apply. When exchanging to definitive form the transferable / tradeable amount will not be considered as a denomination amount printed.

- d. Exchange from a global note at any time but at the option of the noteholder or the Issuer in scenarios other than limited circumstances

Market practice is that such exchanges must occur in whole and not in part. Thus, if such an event occurred, the entire global note would have to be exchanged into definitive notes. The shared view is that allowing the provision of a minimum denomination and a higher integral amount with such possible frequent exchange scenarios would not be feasible in practice. The Issuer would not be willing to print definitive notes in denomination(s) of, for example EUR 1,000; as such a denomination would not comply with wholesale selling restrictions as referenced earlier in this document.

The concept of exchanging to definitive notes and printing a number of EUR 100,000 EUR 101,000 EUR 102,000 etc. up to EUR 199,000 notes is not deemed feasible for such common situations from a practical or market operational perspective. Therefore, to comply with either Directive's requirements, issues which incorporate one or both of these options should be issued in a single minimum denomination of EUR 100,000 (or equivalent) when complying with the wholesale provisions of the amended EU Prospective Directive or if not a requirement of the Issue, then either a single denomination of an appropriate amount or several denomination(s) as illustrated in Sections 3.1 and 3.2.

Once definitive notes are issued and are physically withdrawn from the ICSDs, the transferable / tradeable amount can no longer apply. When exchanging to definitive form the transferable / tradeable amount will not be considered as a denomination amount to be printed.

The ICSDs do not permit the acceptance of programmes which allow for drawdowns whereby definitives will be made available at any time upon a noteholder or Issuer's request and where such notes have a minimum denomination and a higher integral multiple amount (e.g. EUR 100,000 and multiples of EUR 1,000).

To provide for the above scenario and receive acceptance of the programme, the following wording would be acceptable to the ICSDs in the Programme document:

"If a Global Note is exchangeable for Definitive Notes at the option of the Noteholders / Issuer other than in the limited circumstances, the Notes shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination)"

The ICSDs are willing to consider variations of this wording but in all cases the ICSDs should be consulted before the final programme document is printed

6. Holders' Rights and Entitlements

The noteholders' rights in the ICSDs should reflect their entire holding held within participant accounts in the ICSDs. The ICSDs are not in a position to accept restrictions on this because noteholder(s) should not be disenfranchised whilst the holding is still held via the ICSDs. Documents should reflect that the

Noteholders' rights would be the same as would apply to the amount of the bonds they are holding. These rights should include the receipt of interest and principal, voting rights, tender and exchange rights etc., but not the right to transfer any holdings of less than the minimum denomination / minimum transferable or tradeable amount or to receive a definitive note(s) for holdings less than the minimum denomination.

7. Structures impacting treatment of minimum denomination / minimum transferable or tradeable amount

7.1. Payment In Kind (PIK) Notes

Care should be taken in relation to any convertible, exercisable or Payment-in-Kind (PIK) instruments that any minimum conversion, exercise or payment amounts are provisioned in accordance with the specified denomination(s) and tradeable / transferable amount(s).

Issuers in such cases should either define specified denomination(s) and / or tradeable / transferable amount for the notes (e.g. min EUR 100,000 and multiples of EUR 1) and another for PIK notes (e.g. EUR 1). Note in such cases the ICSDs will not be in a position to monitor or enforce the specified denomination(s) and / or tradeable / transferable amount of EUR 100,000. Therefore the documentation for such issues should contain language to the following effect:

For the purposes of the International Central Securities Depositories, the denomination of the Notes should be considered as EUR 1 and Clearstream Banking and Euroclear Bank SA/NV, are not required to monitor or enforce the minimum denomination / tradeable amount of EUR 100,000.

Alternatively, if the Issuer requires the monitoring of such and / or tradeable / transferable amount within the ICSDs the Issuer can request the application of a pool factor. In such cases it is a requirement that this is referenced in the documentation.

7.2 Nominal vs. Units

As per the ISMAG recommendation – “Nominal vs. Units”, the ICSDs require that the issuance documentation clearly indicates whether Units or Nominal is being used, by providing the binary field “Trading Method” and requires that the relevant documentation does not mix Unitary and Nominal terminology. Please refer to the Annex referenced in the latest ISMAG Market Practise Book for further information.



7.3 Treatment of Partial Redemptions

As per the ISMAG recommendation – “Treatment of Partial Redemptions”, the ICSDs require that the issuance documentation reflects that application of a pool factor for any securities held with ICSDs. Please refer to the Annex referenced in the latest ISMAG Market Practise Book for further information.

7.4. Decimals

The ICSDs only accept denomination / transferable amount / tradeable amount of a security at a minimum level of 1. The ICSDs do not accept decimal place values; the only exception is for legacy currencies that are converting to issues denominated in EUR.

7.5. Amendments

Once the draft documentation has been submitted to the ICSDs, if the denomination / transferable amount / tradeable amount of a security is amended in the final documentation, it is essential that the ICSDs be informed immediately or, if applicable, before the closing of the security occurs. If the ICSDs are not informed of such a change between the time of the acceptance of a security and its closing, pending delivery instructions may fail or instructions may settle that are not in compliance with the final Terms and Conditions of the security.

7.6. New Tranches and / or fungibilities

Tranches will be made fungible by the ICSDs only when the denomination(s) and / or transferable amount / tradeable amount of the subsequent tranche are the same as the denomination(s) and / or transferable amount / tradeable amount of the first tranche. If this has to be achieved by amending the terms of the first tranche (which would normally require the consent of the noteholder(s)), the ICSDs expect to receive amended final Terms and Conditions reflecting the change. However, it is not possible to amend the denomination(s) and / or transferable amount / tradeable amount of the first tranche to a higher amount than was first applied as holdings may already exist in such lower amounts. If the tranches cannot be made fungible, separate ISINs would be assigned to the two respective tranches.