



## **BULLETIN – 151204/37**

# **ICMSA Bulletin – with respect to the Issuance of Euro Commercial Paper (ECP) or Euro Certificates of Deposit (ECD) with Embedded Options**

**Issued by the International Capital Market Services Association**

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### **Introduction**

Over the last decade, the international capital market has seen a number of transformations which not only impacted the overall global financial markets, but also the financial instruments that are being issued and offered to investors through the international capital market. The ICSDs (Euroclear Bank SA/NV and Clearstream Banking Luxembourg) have in parallel noticed an increase in the number of ECP and ECD issuances in the international capital market that contain embedded options.

When using the term “embedded options” in respect of ECP or ECD instruments, this is defined as a special condition attached to an ECP or ECD issuance that gives the holder or the issuer the right to perform a specified action during the life of the issued paper. Those most commonly utilised are in the form of put, call or maturity extension options.

### **Background**

The European Pre-Issuance Messaging (EPIM) system was launched in May 2002 as a secure and automated ISIN request and allocation service. EPIM provides a secure method for new issue information to be shared between the dealer, the issuing and paying agent (IPA) and the ICSDs.

Today almost 100% of all ECP and ECD instruments issued directly into the ICSDs are communicated through EPIM, thus ensuring the associated issuance attributes are simultaneously shared between the dealer, the IPA and the ICSDs.

The inclusion of embedded options in new ECP or ECD products is a more recent market development. Since embedded options must be known by all parties to ensure accurate asset servicing through the issue’s lifecycle, it is vital that the ICSDs and IPAs are aware of these before determining eligibility acceptance and ISIN allocation for the issuance. As EPIM was not designed to include ancillary terms and conditions that are contained in a separate termsheet, it is not possible to communicate these new issuances via EPIM.

In addition, the ICSDs are the recognised national numbering agencies for XS ISINs and rules pertaining to whether securities are fungible or not are determined at the time of ISIN allocation. Any such securities that include an embedded option may or may not be treated as fully fungible; therefore the ICSDs require all necessary information at the time of ISIN allocation to determine if tranche fungibility can apply or not.

### **Action Required**

Any dealer and/or IPA transacting a new ECP or ECD instrument with embedded options inherent in the structure should not communicate these issuance details through the EPIM system.

The dealer must contact the responsible IPA directly, and when doing so, provide an accompanying termsheet (or full terms and conditions) that clearly outlines the terms of the ECP or ECD issuance and the inherent embedded option(s) (e.g. put, call and/or maturity extension). Once the information is provided to the ICSDs, this will allow the IPA and the ICSDs to undertake the necessary eligibility assessment, ensuring the embedded options are clearly and accurately identified to enable acceptance and, in parallel, ISIN allocation. It is important that the respective new issues teams of both ICSDs are advised of these options by the IPA and the supporting documentation (which includes a clear description of the option(s)) must be sent to both ICSDs on closing date at the latest.

It is recommended in these cases that the dealer advises the IPA as soon as the inherent embedded option is known to avoid any impacts on the issuance, fungibility and settlement processes.