



BULLETIN – 160513/38

ICMSA guide to the correct selection of the form of note for international debt securities when obtaining XS ISIN codes

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Objective

The objective of this bulletin is to raise further awareness to market participants about the importance of selecting the correct form of note in the pre-issuance stage (i.e. ISIN creation) within the ICSDs (Euroclear Bank and Clearstream Banking). This bulletin also highlights the settlement and operational risks facing all parties that may arise if / when the incorrect form of note is selected.

Introduction

Since 2006, international debt securities can be created in the following three note forms:

- Classic Global Note (CGN) – for bearer or registered securities
- New Global Note (NGN)* – for bearer securities only
- New Safekeeping Structure (NSS)* – introduced in 2010 – for registered securities only

** For more background on the NGN and NSS note forms, please reference the accompanying appendix on page 3.*

Although the above note forms have been in place for some years, there are still a high number of XS ISIN codes being allocated where the incorrect form of note is being communicated to the Issuing & Paying Agents (IPAs) and ICSDs at the time of the ISIN allocation e.g. CGN form when the securities should be NGN or vice versa.

Why is selecting the correct form of note so important at the time of ISIN allocation and acceptance by the ICSDs?

As the international capital market continues to evolve and more focus is put on efficiency of settlement, data quality and regulatory reporting aspects, the correct set up of a new financial instrument in both the IPAs' and ICSDs' databases is fundamental to having the correct data populated downstream.

Issuers and dealers must bear in mind that they have an obligation to adhere to the master governing documents (e.g. programme memorandum) from which the instrument is issued. If, for example, the programme only allows for CGN form notes to be issued, NGN form notes cannot be issued under that facility. The instrument details provided at the time of creation not only impact how the security is displayed through the ICSDs' websites to external parties, but even more importantly, these details are key to determining the appointed safekeeping entity for the global note, as well as allowing a determination if the security is intended to be eligible as collateral with the European Central Bank (ECB).

Should the incorrect form of note be selected, this would inevitably lead to the need for amendments to the characteristics of the note in both the IPA's and ICSDs' databases. It is important to note that these amendments are not only time sensitive but also labour intensive, due to the associated manual handling. Amending the form of note also requires amended SWIFT messages to be prepared and sent (with the data corrections) - all of which increases the risk of issuance and settlement problems.

Delays to issuance and settlement have an impact on many parties in the downstream asset- servicing chain i.e. issuers, IPAs, ICSDs, dealers and their subsequent settlement counterparties. Should a new security issuance fail or be delayed due to the selection of the incorrect form of note, this could have significant reputational impacts on some or all of the parties involved in the issuance process of that security. Additionally, it should be noted that the associated work undertaken to amend the form of note (legal and operational) post-issuance carries a financial penalty.

Summary and Recommendation

This bulletin seeks to emphasise the importance of selecting the correct form of note in the pre-issuance stage. The below chart is intended to assist with the correct form of note selection process:

	Intention to be ECB collateral eligible	Bearer Form	Registered Form
CGN Form	N/A	Yes	Yes
NGN Form	Yes	Yes	N/A
NSS Form	Yes	N/A	Yes

Note: The NSS Structure should only be utilised when the issuance meets the basic requirements for ECB collateral eligibility. It is anticipated that the NGN structure would also normally only be utilised on the same basis.

Issuers and dealers should take note of the importance of selecting the correct form of note in the pre-issuance stage and the associated risks that may arise if the incorrect form of note is selected and subsequently has to be amended.

A number of links are included in the appendix below which provides additional information to support the correct form of note selection.



Appendix

Note: Some of the links below may require the user to log into the website before being able to access the document(s)

Background information on NGN and NSS notes

<https://www.euroclear.com/eb/en/reference/services/new-issues/New-Global-Note>

<https://www.euroclear.com/eb/en/reference/services/new-issues/New-Safekeeping-Structure>

<https://www.clearstream.com/clearstream-en/products-and-services/new-global-note/62580>

<https://www.clearstream.com/clearstream-en/products-and-services/new-safekeeping-structure/62582>

NGN Brochure

https://www.euroclear.com/dam/Brochures/NGN_005_NGN-brochure.pdf

<https://www.clearstream.com/blob/10524/bdde6ecabf42ee2fe374fec15c52725e/ngn-general-brochure-pdf-data.pdf>

ISMAG Market Practice Book (including ISIN allocation flows used by the ICSDs)

https://www.euroclear.com/dam/Brochures/MA1521_ISMAG_MPB_2012.pdf

<https://www.clearstream.com/blob/9646/51383e84ef079c9a1dceb357ac876098/ismag-mpb-feb2012-pdf-data.pdf>

ECB Website (for eligible collateral overview)

<https://www.ecb.europa.eu/pub/pdf/other/collateralframeworksen.pdf>