



BULLETIN – 100913/14

ICMSA Recommendation for the Treatment of Partial Redemptions

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Introduction

The ICMSA draws attention to certain anomalies and the lack of a standard process in relation to the treatment of partial redemptions of debt securities issued and held in Permanent Global Form within the ICSDs.

Practices that were developed for Bonds held in Definitive Form have been incorrectly defined and applied to terms and conditions for Global Bonds, and thus give rise to a number of practical as well as potential legal and documentary problems.

It is common place for “Drawings” to be maintained for partial redemptions on Global Bonds, which for practical purposes often had to be applied by the ICSDs by way of a pro rata reduction in the holding of each participant, and is then rounded to the nearest whole minimum denomination. This can lead to the minimum threshold for trading purposes being breached for certain holders preventing future trading of such holdings unless an amendment is made to the constituting documentation. In certain circumstances this could also lead to a potential breach of the minimum denomination requirements under the provision of the Wholesale Distribution provisions of the EU Prospectus Directive.

The perhaps more common practice for partial redemptions whilst in Global Form is the utilisation of the “Pool Factor”. This serves to reflect the partial reduction in the Principal Amount outstanding following each repayment of Principal, automatically generating the appropriate reduced coupon amount (or other entitlement) in the future. Use of the Pool Factor also ensures the records of the ICSDs, the Common Depositories and the Agents are aligned for the subject security.

The Pool factor application provides the ability to record the full original amount of issuance, the holding therefore maintained, and most importantly ensures retention of the integrity of the individual denominations.

The ICMSA therefore recommends that:

- In documenting new Stand-alone Issues and Programme Documentation for which the Issuances are intended to be maintained in Permanent Global Form, the application of the “Pool Factor” should be utilised as the standard procedure for all cases where a Partial Redemption of the securities can occur.
- In relation to documentation for existing Stand-alone Issues and Issues under Programmes where Partial Redemptions have yet to occur, and where no contrary expression is maintained within the Terms and Conditions, the “Pool Factor” is utilised.



- In updating Programme Documentation, Issuers are encouraged through their Programme Arrangers and Legal Advisers, to effect the appropriate amendments to the constituting documentation, in order to provide for the “Pool Factor” to be utilised for all future issuances, where appropriate. If not updated, consideration should be given to an express provision in relation to any appropriate new issue.

Instruments in all forms¹

The above recommendations should have equal application to Bearer CGNs and NGNs and Registered CGNs, including the NSS Structure*.

In case of any doubt on existing issues, and in relation to such new issues, it is important that the IPA or Arranger/Lead Manager, as the case may be, should consult with both ICSDs, before the documentation is finalised.

¹ It is recognised that certain structures, e.g. PIK Notes in denominations of just One Unit of Currency, may not necessarily lend themselves to the application of the “Pool Factor”.

* For definitions of these terms please refer to ICSDs’ New Safekeeping Structure FAQ - <http://www.icmsa.org/uploads/news/id54/ICSDNSS6.pdf>