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Identifying market and regulatory obstacles to the development of private placement of debt in the EU

Public Hearing European Corporate Bonds Markets

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Focus for today's presentation

Introduce the study and its approach

Present the key results of the study

Discuss conclusions and recommendations



Study in support of the CMU Action Plan

Evaluate potential regulatory barriers to the development of private placements in the EU

Identify best practices in well-established private placement markets

Assess growth potential of private placement markets in the EU

Analyse the need for modifications to the capital charges calibration under Solvency II

Increase awareness of private placements

Share best practices to support market development

Study in line with the Capital Market Union Action Plan to provide more funding choices for Europe's businesses and especially SMEs

Objectives of the study

Evaluate potential regulatory barriers to the development of private placements in the EU

Identify best practices in well-established private placement markets

Assess growth potential of private placement markets in the EU

Analyse the need for modifications to the capital charges calibration under Solvency II



Covered in two parts

Economic part

- Stock-taking of existing private placement markets in the EU and, for comparison, the US
- Cost-benefit analysis of private placement as a source of company funding and analysis of associated risks
- Assessment of growth potential for cross-border activities and the development of new domestic markets

Legal part

- Identification of regulatory best practices in well-functioning private placement markets
- Assessment of regulatory obstacles to the development of private placement markets across the EU
- Analysis of most common risk-mitigation clauses in private placement transactions

Key findings of the study

- 1 Increasing relevance of private placement over past years - two main, well-functioning markets established in the EU: France and Germany
- 2 Private placements constitute a building block of company funding - but no universal remedy for every company and situation
- 3 Accounting treatment and promising yields qualify private placements as an attractive investment opportunity
- 4 Risk-profile of private placement instruments not substantially different from senior unsecured debt - process for restructuring of debt as potential area of concern
- 5 Comparable regulatory and legal risks affect European private placements and corporate bonds - no significant regulatory obstacles to the development of private placement markets
- 6 Existing domestic private placement markets expected to grow further
- 7 No substantial regulatory barriers for expansion of cross-border activities - in general, qualified companies from all EU Member States might tap existing markets
- 8 Potential typical issuers identified as mid-sized companies with annual revenues from €75M to €5B - nine EU Member States with growth potential
- 9 Three EU Member States have the potential and started first initiatives to establish new domestic private placement markets

Two established markets in the EU

Issuers and investors differ across markets

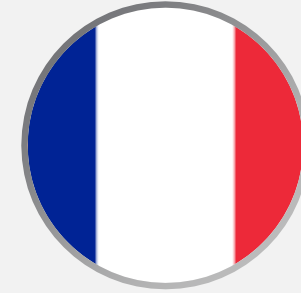
Further market growth expected

Schuldschein (SSD)



- Significant growth over past ten years
- 2016: €25B, 120 deals
- Issuers typically mid-sized to large firms with investment grade quality
- Investors mostly commercial and savings banks
- Rise in M&A activities and high demand from banks as main drivers for recent growth
- Latest forecasts for 2017 slightly above 2016 values

French Euro-PP

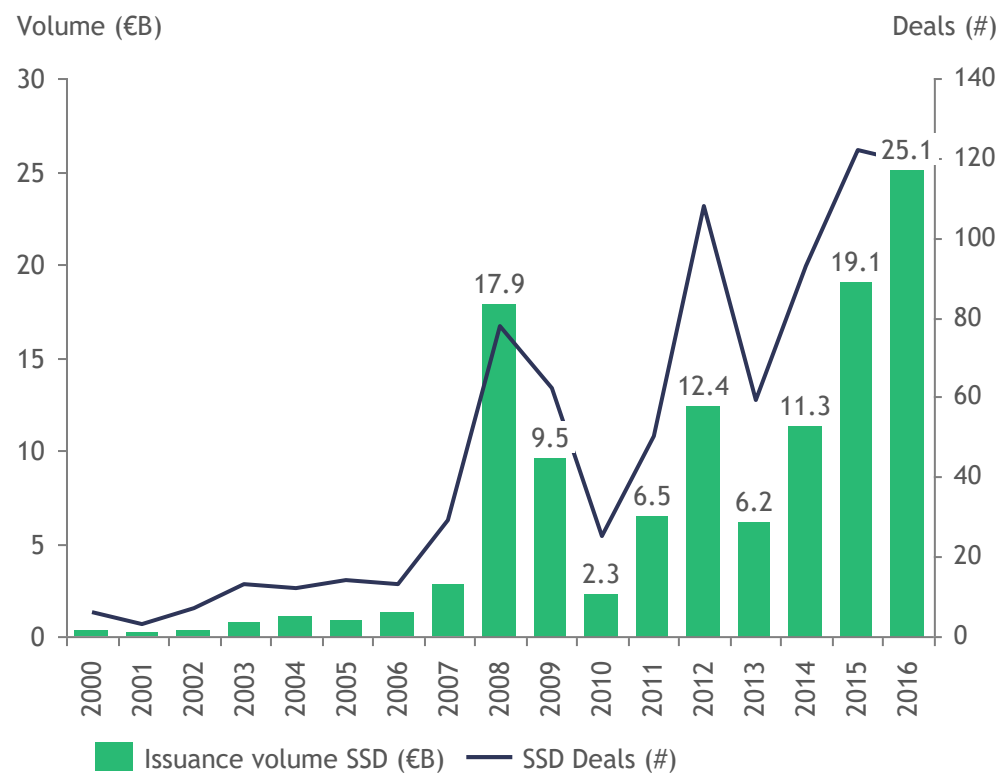


- Established in 2012 only
- 2016: €4.5B, 68 deals
- Issuers mostly small to mid-sized firms with cross-over quality
- Predominantly French institutional investors
- High liquidity in banking sector counterproductive and one cause for drop in 2016
- Recovery of market expected for 2017

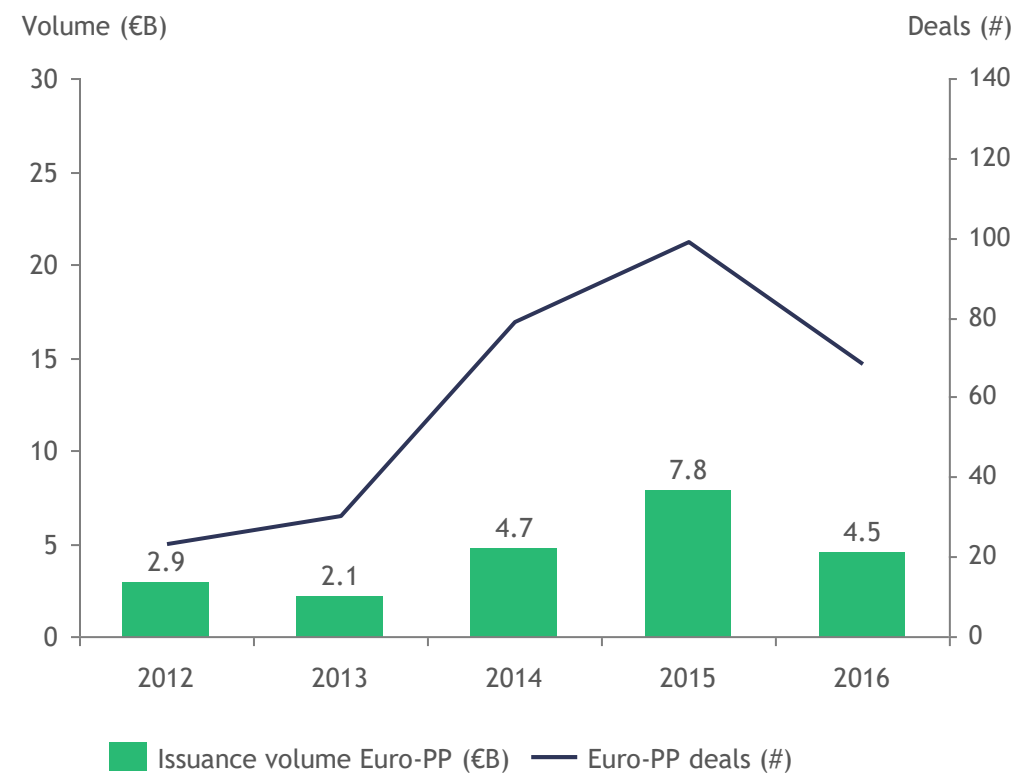
SSD market with record volumes, Euro-PP market still looking to scale

Market participants expect further growth of existing private placement markets

SSD market



Euro-PP market



Private placement as building block of company funding



Lean and flexible
documentation



Limited publication
requirements



Diversification of
funding sources

Private placement as attractive investment opportunity



Accounting
treatment



Portfolio
diversification



Attractive
yields

Comparable
regulatory and
legal risks affect
both private
placements and
corporate bonds

Relevant risks for private placements

Potential complexity of documentation

Management of covenants

Conflicts of laws issues in cross-border transactions

Disclosure obligations in listed transactions

Growth potential of private placements across EU assessed

Increasing cross-border activities and new domestic markets

In general, companies from all EU Member States can issue private placements in the existing markets

Potential typical issuers identified as mid-sized companies with annual revenues from €75M to €5B

Supply-side as the decisive factor for establishing a new domestic market

Further factors include investor landscape, reliance on bank funding and liquidity

Three potential new domestic markets identified: Italy, the Netherlands and Spain

Best practices for potential new markets

Collaborative market design

Common effort of all market participants to ensure sizeable market and common understanding

Standardisation

Implementation of standardized documentation and processes to simplify issuances

Engagement of institutional investors

Create market environment to enable institutional investors easy access to market

No substantial regulatory barriers for expansion of cross-border activities

Content market participants



Market participants generally content with the current regulatory environment

Different legal, tax and regulatory regimes



Development of legal environment at a national level to facilitate private placements

Four actionable recommendations derived



Launch information campaigns

Increase the awareness of private placements among potential issuers and investors to support further market participation.



Facilitate communication

Facilitate communication between institutions of different Member States to ensure the exchange of experience and best practices.



Assess benefits from independent rating

Evaluate benefits from providing an independent, third-party-opinion on the credit quality of private placement issuers.



Clarify and develop legal environment

Clarify EU regulatory framework and encourage efforts at a national level to facilitate the development of private placements.

Thank you

We are looking forward to your
questions and comments!

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