ABI STATEMENT ON BEST PRACTICES IN NEW FIXED INCOME TRANSACTIONS

The UK bond market is a cornerstone of the UK economy. It is an important source of capital that allows lenders to invest at their required rate of return and borrowers, including the Government, to obtain funds in relatively liquid markets. In addition, it is important in determining the price of other assets and bank interest rates that usually follow market-determined interest rates on bonds. Therefore, it is in the interests of all market participants to develop and maintain practices which promote the efficient function of the market and hence support the broader economy.

ABI members, as investors in fixed income instruments, are keen to ensure that the UK bond market serves both the interests of both issuers and investors. However, they have been concerned about some of the market practices for new fixed income transactions, in particular, the sell-side’s approach to pre-sounding, book-building and allocation in non-EMTN issuance. With this in mind, the ABI approached the International Capital Markets Association (ICMA) to discuss how to develop and promote best practice both within buy-side and sell-side firms.

The ICMA Primary Market Handbook contains ‘Recommendations’ that are the primary means of promoting good practice amongst Eurobond Syndicates (including those in the UK market) on a number of issues including:

- Pre-Sounding on Transactions (Recommendation 1.30), and
- New Issue Processes (Recommendation 1.32).

In addition, it contains Explanatory Note XIII: Pre-sounding, Bookbuilding and Allocations that seeks to provide the sell-side with practical information on these processes and to serve as a reference point for bookrunners when explain their working practices to issuers and investors.

Following a review of these documents, the ABI, as representatives of the buy-side, have decided to endorse publicly these Recommendations and the practices set out in the Explanatory Note. The ABI believe these documents set out the minimum standard sell-side firms should adhere to when interacting with the buy-side in fixed income transactions.

In addition, below we set out key investor expectations that supplement those set out in the ICMA Primary Markets Handbook. They also include some recommendations for buy-side firms.
Investor Meetings

- Investors encourage early engagement. The appropriate timeframe for each engagement should take into account how well known the Issuer is and the complexity of the transaction.

Pre-sounding

Buy-side firms

- In line with the recommendations of the Stewards Code, buy-side firms should set out clearly, on their websites or in their stewardship statements, who should be contacted at first instance by sell-side firms.

Sell Side Firms

- Sell-side firms should:
  o develop a uniform template for initial wall-crossing, this should include a requirement for sell-side to begin a pre-sounding call by clearly stating the purpose of the call and seeking investors’ agreement to be wall crossed prior to proceeding with the call.
  o only contact a potential investor once they are able to provide all the relevant details required to enable investors to make their own analysis to whether to accept being wall-crossed.
  o develop a standard confidentiality agreement template.
  o refer to the buy-side firm’s website or stewardship statement to ensure they contact the nominated individual at first instance.

Cleansing and notification:

- Sell-side firms should develop a template that sets out the cleansing and notification procedures when a deal is announced or abandoned.
- Where a sell-side representative seeks an extension on the cleansing date, there should be some guidance the length of the extension being sought.

Prospectuses

- Sell-side firms should ensure that there is early publication and timely distribution of all the relevant information and documentation, including prospectuses.
- The practice of having a red herring issued in advance of opening the order book, as is the case in high yield deals, should be adopted more widely in investment grade issuance.

Order book

- The order book should:
  o be open only after the roadshows (if any) have been completed. Before then investors should only be able to put in indications of interest (“IOIs”).
  o be kept open for a minimum of 60 minutes following the publication of the red herring and the investor call (if there is no roadshow), with a 15 minute warning before books close, to allow investors to review the transaction properly and place their orders.
• Sell side firms should develop a uniform process for solicitation and submission of IOI including clarity on the purpose of an IOI and how this will impact the allocation process.
• Syndicate banks are encouraged to allow the electronic transmission of:
  o orders for new issues from the buy side to one lead manager or directly to the syndicate book, and
  o allocations back to buy-side firms once the orderbook has been closed, so as to minimise the risks associated with manual order procedures.

As part of the need to ensure more post-trade transparency, the lead manager should, as a minimum disclose the coverage of the order book, the strike price, distribution broken down by investor type and geographic location and average allocation. This should be done for all new fixed income transactions.

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