



# The Pan-European Private Placement Joint Committee

Milan, 23 April 2015





## The Mission of ICMA

- **To promote resilient and well functioning international debt capital markets**, which are necessary for economic growth, and benefit market participants and their clients alike.
- Working actively with its members in all segments of the wholesale markets, buy and sell side, **ICMA focuses on a comprehensive range of regulatory, market and other relevant issues which impact market practices and the functioning of the international debt capital markets.**
- The full mission statement is available on ICMA's website:  
<http://www.icmagroup.org/About-ICMA/>

## Pan-European Private Placement Market

- A Pan-European Private Placement Market aims, amongst other things, to:
  - target a wider European issuer base comprising medium-sized, often private, companies representing a cross-over credit profile, as well as larger corporates seeking to diversify their funding mix
  - considerably increase the availability of long term funding, especially for medium-sized companies
  - attract and provide diversification for institutional investors
  - represent an intermediate market between the bank loan and debt capital markets and a transition towards the public capital markets and
  - promote capital market integration across the EU.

## Market Potential for Private Placements

	US PP	Schuldschein	Euro PP
Market size	\$ 50Bn	€ 11Bn	€ 3.7Bn
Number of deals (2014)	248	90	57
Issuer nationality	48% US 52% cross border <i>of which 3% France</i>	86% Germany and Austria  8% France	Mainly France  <i>c.12% Italy</i>

*Source: Credit Agricole CIB et S&P, Alternative lending markets, as for January 26, 2015*

- €2.7 trillion of debt will need to be refinanced by mid-sized companies by 2018 (S&P research). If even 5% of the bank loan refinancing requirement were sourced in the PEPP market, this would equate to €13.5 billion in PEPP issuance per annum.

## Market Expectations for Private Placements

# Would a pan-European private placement market fill a funding gap?

**YES, BUT GERMAN COMPANIES FEEL LESS OF A NEED THAN OTHERS**

**Question asked:** Please state the extent to which you agree or disagree with each of the following statements

*It is important to have viable alternative sources of funding available to businesses in Europe.*



*The development of an effective and efficient pan-European private placement market would provide an important alternative source of funding for our business.*



*I believe the development of an attractive and viable pan-European private placement market is likely to happen.*



Strongly agree   Agree   Don't know/Do not agree or disagree   Disagree   Strongly disagree

Source: A&O, YouGov – Survey of 218 European medium-sized companies

## **The Pan-European Private Placement (PEPP) Joint Committee**

**Allen & Overy LLP**

**Ashurst**

**ASMEP-ETI**

**Association of Corporate  
Treasurers**

**Association for Financial  
Markets in Europe**

**Association Française de la  
Gestion financière (AFG)**

**Association Française des  
Investisseurs Institutionnels  
(Af2i)**

**Association Française des  
Marchés Financiers (AMAFI)**

**Association Française des  
Trésoriers d'Entreprises (AFTE)**

**Banca IMI**

**Banque de France (Observer)**

**Bank of America Merrill Lynch**

**Bank of Italy (Observer)**

**Comité de pilotage de l'Euro PP**

**CMS Bureau Francis Lefebvre**

**Crédit Agricole CIB**

**Delta Lloyd**

**DLA Piper**

**European Private Placement  
Association (EU PPA)**

**Fédération Bancaire Française  
(FBF)**

**Fédération Française des  
Sociétés d'Assurances (FFSA)**

**Fédéris Gestion d'Actifs**

**DG Trésor (Observer)**

**Grimaldi Studio Legale**

**Groupement des entreprises  
mutuelles d'assurance (GEMA)**

**Gide Loyrette Nouel AARPI**

**Herbert Smith Freehills**

**HM Treasury (Observer)**

**International Capital Market  
Association (ICMA)**

**KBC Group**

**Kings & Wood Mallesons**

**Kramer Levin Naftalis & Frankel**

**LGIM**

**Linklaters**

**Loan Market Association (LMA)**

**Loyens & Loeff**

**M&G Investments**

**Mouvement des entreprises de  
France (MEDEF)**

**Muzinich**

**Natixis Asset Management**

**Paris Europlace**

**Paris IDF Chamber of Commerce  
and Industry**

**Simmons & Simmons**

**Slaughter and May**

**Société Générale**

**Standard & Poor's**

**Stifel Nicolaus Europe Limited**

**TheCityUK**

**The Investment Association**

**White & Case**

## Objectives of the PEPP Joint Committee

- Promote the maximum level of cooperation between PEPP market participants, associations and other stakeholders for the benefit of the entire market.
- Identify barriers to the development of the market, especially to the entry for new issuers and investors, and propose appropriate remedies.
- Coordination of standardised documentation in loan and note form (LMA and French Euro PPP Working Group released in January 2015).
- The Pan-European Corporate Private Placement Market Guide (released in February 2015) building on the French *Charter for Euro Private Placements*.

## What is a PEPP?

- A medium to long term senior debt obligation (note or loan format), generally at fixed rate, negotiated/issued privately to a small group of professional investors.
- Normally an unlisted and illiquid instrument for buy-to-hold, but nonetheless registered and transferable.
- Long term debt funding for medium-sized and often unrated and/or private companies, but can also accommodate larger corporate issuers.
- Arrangers will typically have an agency role.



## Pan-European Corporate Private Placement Market Guide

- A non-binding framework of best practices for PEPP transactions, enshrining common market practices and principles.
- Characteristics of a PEPP-compliant transaction as a private and unlisted debt product.
- Roles and responsibilities of the borrower, investors, the arranger (if any), legal counsel and other parties to a PEPP transaction.
- Documentation which may be required (from the [Loan Market Association \(LMA\)](#) and the [Euro PP Working Group](#)).
- Key processes to be undertaken when issuing a PEPP and during its term i.e. information disclosures and due diligence, monitoring of covenants as well as a description of key points to be addressed between the borrower and investors.

## Documentation

- LMA Documentation:
  - Loan-style documentation, loan and note form
  - Investment grade-equivalent issuers, English law
- EURO PP Working Group Documentation:
  - Bond-style documentation, loan and note form
  - Investment/Sub IG, French law but designed to be adapted into other continental legal systems
- PEPP Market Guide is neutral as to documentation

## Official Sector and Industry Support

- Fabio Panetta, Member of the Governing Board and Deputy Governor of the Bank of Italy, said: *“Bank of Italy welcomes the launch of the Pan-European Corporate Private Placement Market Guide. It is a useful tool for developing a European private placement market for corporate debt and, consequently, for broadening and diversifying sources of funding to the European economy.”*
- Michel Sapin, French Minister of Finance, said: *“The Guide is a key element to foster the development of a private placement market in Europe. This should be one of the building blocks of the Capital Market Union.”*

## Official Sector and Industry Support contd.

- Daniel Godfrey, Chief Executive of the Investment Management Association (IMA), said: *“we can announce that over the next five years Allianz Global Investors, Aviva, Friends Life, Legal & General, Prudential and Standard Life intend to make investments of around £9 billion in private placements and other direct lending to UK companies.”*
- Colin Tyler, ACT Chief Executive, said: *“The Guide will be a big help in communicating with and within mid-sized corporates about an alternative source of finance. For potential mid-sized issuers that have not used private placements before, it will give confidence that there are clear paths to issuing – it is not venturing into wild-West territory.”*

## Future Priority Work Flows

- Market Promotion of the Guide – Paris, London, Italy, Brussels, Amsterdam, Frankfurt.
- Market intelligence: monitoring and, when possible, quantify market activity.
- Regulatory issues:
  - treatment of PEPPs under Solvency II with a focus on unrated issuers
  - Restrictions on institutional investors lending in loan format
  - Other particular barriers to investment/issuance.

## Future Priority Work Flows contd.

- Taxation: Focus on tax treatment (e.g. withholding tax) of PEPPs in the relevant European jurisdictions.
- Encouraging a shift in culture from bank lending to alternatives.
- Investor resourcing.
- Continued self-regulation: updating the Guide and documentation as the market develops and evolves.

## CMU – Key Recommendations

- To create a real incentive to invest in PEPPs by revising the final calibrations for insurers of the spread risk capital weightings in the Solvency II Delegated Act .
- To improve the availability of credit and scoring information on private European mid-sized companies.
- To consider extending the scope of existing European SME and credit enhancement vehicles to provide first loss guarantees to holders.
- Further issues include the inability of institutional investors and funds in certain jurisdictions to originate loans, and bankruptcy laws which are geared to prefer bank liabilities.

## QUESTIONS?

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