

Issuing Bonds

The timetable of issuing a bond can vary from a few days to several months.

This all depends on the complexity of the terms and conditions of the underlying security, the parties and their respective jurisdictions involved, whether it is a first-time issue and whether and where the bonds shall be listed. While details of each bond issue differ, most follow a similar structure, though.

To start with, in many cases, a credit rating by an agency is recommended (in the United States such is mandatory): During the rating process the issuer will usually be accompanied by its financial advisor. Next, a range of service providers have to be mandated and their conditions for participating in the transaction defined: Among them auditors, lawyers (for both, the issuer as well as the underwriting consortium) and the transaction's lead manager (arranging the entire transaction, including the sale of the bonds, legal documentation and settlement procedures).

Lawyers do play a key part in the pre-launch phase in which not only structural considerations are assessed (what sort of bonds shall be issued?), but also all kinds of due diligence undertaken (e.g. legal, financial, operational, managerial, environmental). Important considerations are borrowing restrictions, whether to offer a negative pledge (prevents creating security interest over certain property), if the issue is to be guaranteed (e.g. by the parent company) or secured by corporate assets (collateralized), is callable or convertible or whether the bond shall be offered globally or to be listed on an exchange (registration with the SEC). As far as legal documents are concerned, among others, following has to be prepared: Prospectus (where all relevant information about the issuer and the transaction can be found, such as business overview, management, investors, offering terms, risks), subscription agreement (commitment to invest in a security), underwriting agreement (assuming the risk and commitment of reselling the issue to investors), agreement among managers, and a legal opinion. Latter is relevant for the lead manager's lawyers who will want to know whether the issuer is creditworthy

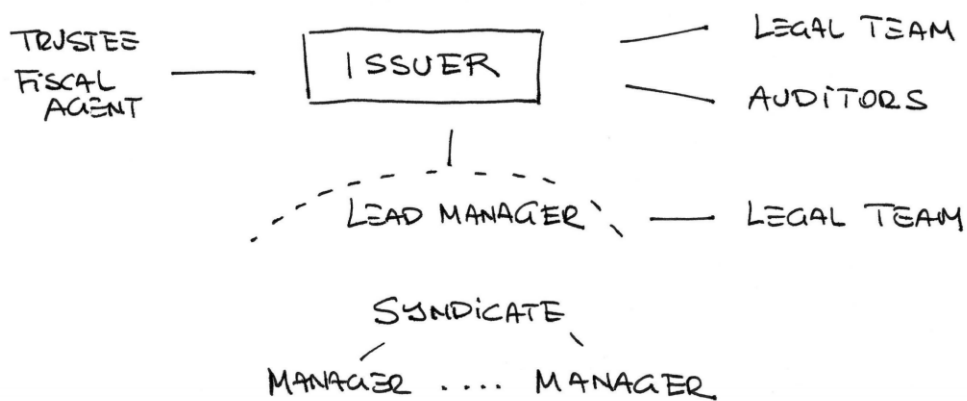
and what other risks may be associated with the issuer.

With the launch, the intention to issue bonds is publicly announced. During a roadshow, the issuer presents the investment case (including terms and price indication) whilst meeting with investor candidates in the major financial hubs: In the course of investor meetings, the investment story is told as well as potential concerns and questions are addressed. Meanwhile, a book is opened, a sort of digital archive where (non-binding) orders from investors are noted (book building process). Depending on how the book develops, the intended issue's price indication may be adjusted, based on market sentiment and investor feedback. If the issue is well subscribed (ideally oversubscribed, even better by several times), the book will be closed and a decision made to determine how much to give to each investor. This decision is based on the quality of each investor and the strategic objectives of the issue. Banks give the issuer a list with the proposed distribution for approval, upon which investors are informed how much each will be allocated. Then, the price of the issue is determined, whereby that day's market dynamics will also be taken into account.

In a next step, the managers sign the subscription agreement, agreeing to subscribe the bonds on closing (i.e. trust deed signed and the bond instrument created: Investors receive the bonds from the issuer in exchange for payment of the purchase price of the bonds). Finally, the sales team informs the market of the coupon and the bond is listed on the [secondary market](#).

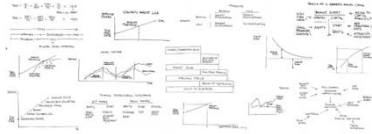
NOTE: An issuer could also consider a private placement, involving the selling of unregistered (not registered with the SEC) bonds to qualified institutional investors (minimum US\$ 100m assets under management). This type of bond may be advantageous to an issuer as terms are more flexible and the costs of the issuance are cheaper due to lower regulatory and marketing costs. However, also this type of issuance requires the assistance of an investment bank besides a team of auditors and lawyers, for filing the proper letter of intent and private placement memorandum as well as to connect the issuing company with institutional investors.

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