

New Global Note Structure

for international bearer debt securities
issued through the ICSDs

General information brochure

1 July 2006



International
Capital Market
Services Association



euroclear

clearstream | DEUTSCHE BÖRSE
GROUP

Executive summary

What is the New Global Note (NGN) structure.....	3
Who should read this document	3
Key features of the new structure	4
Securities eligible as collateral for Eurosystem operations	4
Standard Market Protocol	5
Managing the changing capital market	6

New Global Note structure	7
--	---

Legal framework	11
------------------------------	----

Issuance process	13
-------------------------------	----

Securities under programme.....	13
Stand-alone securities	14

Asset servicing	15
------------------------------	----

Where to find additional information	17
---	----

Glossary	19
-----------------------	----

Project organisation	21
-----------------------------------	----

What is the New Global Note (NGN) structure?

June 2006 saw the introduction of a new legal and holding structure for international debt securities issued in global bearer form jointly through Euroclear Bank and Clearstream Banking Luxembourg, the two International Central Securities Depositories (the ICSDs).

Following a recommendation by the Eurosystem concerning the custody structure of international debt securities, the ICSDs have worked with market participants to create a new structure for the issuance, processing and safekeeping of international bearer debt securities issued using a New Global Note (NGN) form.

The new structure will be mandatory to enable a newly issued international debt security to be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations. It may also be used for other securities.

Who should read this document

This document is aimed at all market professionals involved in the issuance and asset servicing of international debt securities deposited with the ICSDs, and in particular:

- issuers;
- investment banks acting as underwriters, lead managers, arrangers or dealers;
- law firms acting as counsel to any of the above; and
- issuing and paying agents and all banks active in the agency business.

Those investing in international debt securities in bearer form may also find it useful to understand the new structure, especially if they are interested in the eligibility of such securities as collateral for Eurosystem monetary and intra-day credit operations.

Key features of the new structure

- New issuances of international debt securities in global bearer form use a new form of global certificate, known as the NGN.
- Under the terms of the NGN, the issue outstanding amount is determined based on the ICSDs' records, avoiding the need for physical annotation of the bearer form global note.
- Issuers provide a signed Issuer-ICSD agreement requesting acceptance of the securities with the ICSDs.
- The securities are serviced by two new types of agent, the Common Service Provider (CSP) and the Common Safekeeper (CSK), which are appointed by the ICSDs.

The main impact of the NGN structure on the parties involved in the issuance and asset servicing of international debt securities is described further in this document.

The Classical Global Note (CGN) structure, which is serviced by Common Depositaries appointed by the ICSDs, co-exists with the NGN structure.

Securities eligible as collateral for Eurosystem operations

Based on information provided by the ECB, the Eurosystem collateral eligibility criteria currently require that, among other things, a security must:

- be a euro-denominated debt issued by an EEA, G10 or supranational issuer;
- meet high credit standards;
- be listed or quoted on a regulated market or an ECB-approved non-regulated market;
- be settled in the Eurozone; and
- be held with a Securities Settlement System (SSS) complying with further Eurosystem criteria.

The Eurosystem will, in the future, apply two additional requirements, i.e.:

- international bearer debt securities must be issued in NGN form; and
- NGNs must be kept in safe custody with one of the ICSDs acting as CSK.

International debt securities issued in CGN form prior to 1 January 2007 will continue to be potentially eligible as collateral for Eurosystem monetary policy and intra-day credit operations during their lifetime, while international debt securities issued after this date in CGN form will no longer be considered eligible.

Standard Market Protocol

The design of the NGN structure presented the opportunity to review the operational flows underlying the servicing of international debt securities issued both in CGN and NGN form. The outcome of this review will be incorporated in a Standard Market Protocol (SMP) document, to be published by the ICMSA and the ICMA, with the objective of providing guidance on best market practice.

Managing the changing capital market

The implementation of the NGN structure does not change any of the current market fundamentals. International debt issuers of bearer securities continue to enjoy the same flexibility and freedom with respect to how issues are brought to the market that they have enjoyed since the launch of the first eurobond in the 1960s.

The adoption of the NGN structure as a permanent fixture will be heavily reliant on the uptake and endorsement that it receives from the market. The structure, known as the CGN, which is serviced by Common Depositaries, co-exists with the NGN structure.

The important new consideration issuers will face is whether or not to structure their securities to incorporate the Eurosystem requirements, and thereby ensure the potential eligibility of their securities as collateral for Eurosystem monetary and intra-day credit operations.

In the coming months, all market participants that have played a role in designing the new structure will continue to focus on the critical steps and information provision needed to ensure the smooth operation of the new structure, which is poised to become a market standard for the future.

Who should read this section

- Issuers
- Investment banks acting as underwriters, lead managers, arrangers or dealers
- Law firms acting as counsel to any of the above
- Issuing and paying agents and all banks active in the agency business

As of the end of June 2006, issuers of international debt securities can opt for a new form of global note, the NGN, to issue international debt securities in global bearer form.

The characteristics of the NGN are the same as the CGN, except that:

- the NGN only applies to debt securities in bearer form;
- the ICSD records, rather than physical annotations on the global note itself, are used to determine the issue outstanding amount;
- issuers must sign an agreement with the ICSDs to request acceptance of their securities; and
- if transmitted electronically to the entity appointed as CSK, the NGN needs to be effectuated by the CSK pursuant to an authorisation from the issuer.

The NGN is serviced by two new types of agent appointed jointly by the ICSDs, i.e.:

- a CSP which is in charge of providing asset services to the ICSDs; and
- a CSK which is in charge of safekeeping the NGN throughout its life.

International bearer debt securities issued in NGN form



Each security is serviced by a CSP and a CSK appointed by the ICSDs according to the following guidelines. The CSP is the entity acting as (in order of priority):

- issuing and paying agent, principal paying agent or fiscal agent;
- conversion agent, exchange agent; and
- any other issuer agent function.

If no CSP has been identified in the issue documentation as performing one of the above issuer agency functions, the ICSDs consider the preference of the issuing and paying agent or lead manager. If no such preference exists, the security is allocated at the discretion of the ICSDs.

The CSK is:

- Clearstream Banking Luxembourg or Euroclear Bank for securities that issuers wish to make potentially eligible as collateral for Eurosystem monetary policy or intra-day credit operations; or
- the same entity as the CSP for all other securities issued in NGN form.

The ICSDs reserve the right to modify at all times the respective CSP or CSK mandate allocation guidelines.

Who should read this section

- Issuers
- Investment banks acting as underwriters, lead managers, arrangers or dealers
- **Law firms acting as counsel to any of the above**
- Issuing and paying agents and all banks active in the agency business

The NGN structure relies on a series of new or updated legal documents, including:

- **NGN template:** issuers wishing to issue international debt securities in bearer form under the NGN structure should use a new model form of global note. This model form has been prepared by Allen & Overy LLP and has been reviewed by a number of major law firms. Compared with the CGN, the main difference is that the issue outstanding amount is no longer recorded on the face of the note or on the attached schedule(s), but is determined by the records of the ICSDs.

This new feature is reflected in the terms of the NGN based on the following language from the model form of NGN prepared by Allen & Overy LLP:

‘The nominal amount of Notes represented by this Global Note shall be the aggregate amount from time to time entered in the records of both the relevant Clearing Systems (as defined below). The records of the relevant Clearing Systems shall be conclusive evidence of the nominal amount of Notes represented by this Global Note and, for these purposes, a statement issued by a relevant Clearing System stating the nominal amount of Notes represented by this Global Note at any time shall be conclusive evidence of the records of the relevant Clearing System at that time.’

- **Documentation:** issuers wishing to use the NGN structure need to update their programme or other offering documentation to account for this new form of global note. For existing programmes, issuers or their agents should provide the updated programme documentation to the ICSDs before issuing the first draw-down in NGN form.

- **Legal opinion:** issuers are asked to provide to the ICSDs a copy of the standard validity and enforceability opinion prepared by their counsel before the NGN security is accepted by the ICSDs.
- **Effectuation:** to facilitate the deposit of the NGN with the CSK, the lead manager, the issuer or its agent can deliver the NGN electronically to the CSK. In such cases, the issuer authorises the CSK to effectuate the NGN to make it a valid security. Such authorisation has to be provided in original executed form by the issuer or its agent to the CSK prior to issuance. The NGN includes wording specifying that it will only become valid when it has been effectuated by the CSK.
- **Issuer - ICSD agreement:** issuers are requested to sign an Issuer-ICSD agreement requesting acceptance of their securities with the ICSDs. This agreement has to be provided by each issuer once for each programme allowing issuance of securities in NGN form and separately for each stand-alone issue represented by an NGN.
- **Agency agreements:** agency agreements, trust deeds and indentures need to be updated to reflect the new structure to be serviced by the agent.

Issuance process

Who should read this section

- Issuers
- **Investment banks acting as underwriters, lead managers, arrangers or dealers**
- Law firms acting as counsel to any of the above
- **Issuing and paying agents and all banks active in the agency business**

The issuance and distribution process for securities in NGN form is similar to the process for CGNs except for the changes outlined below.

The deposit of a new security in NGN form requires two actions before the securities can be credited on the ICSDs' records and distributed to investors, i.e.:

- **NGN deposit:** the NGN certificate must be deposited with and confirmed by the CSK; for securities expected to meet Eurosystem eligibility criteria, the CSK must be one of the ICSDs; and
- **Issue outstanding amount mark-up:** the issuer agent must confirm the initial amount to be credited on the ICSDs' books to the ICSDs (via the CSP).

The distribution process through the ICSDs is largely similar to the process for CGNs. Agents and lead managers should note the details provided below.

Securities under programme

- **Final terms (pricing supplement):** when preparing the final terms, the dealer, the issuer or its agent is required to specify whether the security is to be issued in NGN or CGN form and whether or not the security is expected to meet Eurosystem eligibility criteria at the time of issuance or in the future. The latter allows the ICSDs to determine whether the security should be deposited with an ICSD acting as CSK. The agent should then provide the final terms and conditions to the ICSDs and the CSP as soon as they are available.

- **NGN deposit:** the agent is required to deposit the NGN with the CSK appointed by the ICSDs. Where required by the terms of the note, the final version of the final terms must be attached to the NGN certificate. The agent may deposit the NGN electronically, in which case the agent must ensure that the issuer has provided the CSK with authorisation to effectuate the NGNs issued under the programme.
- **Issuer-ICSD agreement:** before depositing the first draw-down in NGN form under a programme, the agent must ensure that the issuer has signed the Issuer-ICSD agreement.

Stand-alone securities

- **Term sheet:** to request the acceptance of a security by the ICSDs, the lead manager or the agent is required to provide the ICSDs with a relevant term sheet. The term sheet should specify whether the security is to be issued in NGN or CGN form and whether or not the security is expected to meet Eurosystem eligibility criteria at the time of issuance or in the future. The latter allows the ICSDs to determine whether the security should be deposited with an ICSD acting as CSK. The lead manager should then provide the final terms and conditions to the ICSDs and the CSP as soon as they are available.
- **Closing pack:** when preparing the closing of the security, the lead manager is required to include the effectuation authorisation, the Issuer-ICSD agreement and a conditional issue outstanding amount mark-up instruction to the CSP.
- **NGN deposit:** the lead manager, the issuer, its agent or legal counsel is required to deposit the NGN with the CSK appointed by the ICSDs. The lead manager or the agent may deposit the NGN electronically, in which case, the lead manager or the agent must ensure that the issuer has provided the CSK with authorisation to effectuate the NGN.

Who should read this section

- Issuers
- Investment banks acting as underwriters, lead managers, arrangers or dealers
- Law firms acting as counsel to any of the above
- **Issuing and paying agents and all banks active in the agency business**

Issuers and investors should benefit from a level of asset servicing equivalent to securities in CGN form.

- **Issue outstanding amount maintenance:** the key feature of the NGN is that the issue outstanding amount of the security is the aggregate amount entered in the records of both ICSDs. It is therefore critical that the issuer agent advises the ICSDs immediately of any change to the issue outstanding amount and regularly reconciles such issue outstanding amount with the ICSDs. Communication of this information is facilitated by the CSP.
- **Standard Market Protocol (SMP):** this document, to be published by the ICMSA and ICMA, will provide guidance on best market practice for issuers, their agents and other market professionals involved in servicing international debt securities issued in CGN and NGN form.

Where to find additional information

The following table lists other documents relating to the NGN structure, the date by which they are expected to be available, and where to find them.

Documents	Description	Where
New Global Note structure for international bearer debt securities issued through the ICSDs – General information brochure	This document	
Slide pack	General presentation to be used as a whole or in part by interested parties in internal or external presentations or conferences	www.euroclear.com
NGN templates	Form of the global note to be issued for securities under programme and stand-alone securities	www.clearstream.com www.icma-group.org www.capmktserv.com
Legal pack	The legal pack includes: <ul style="list-style-type: none"> • NGN templates • standard provisions for agency agreements • standard provisions for final terms and offering documentation • Issuer-ICSD agreement • Effectuation and disposal authorisation 	

For more information, contact:

Clearstream Banking Luxembourg

42 Avenue JF Kennedy
L-1855 Luxembourg
Luxembourg
Network Management & New Issues
e-mail: NGN@clearstream.com
telephone: + 35 2 243 32119
website: www.clearstream.com

Euroclear Bank SA/NV

1, Boulevard du Roi Albert II
B-1210 Brussels
Belgium
Network Management Department
e-mail: NGN@euroclear.com
telephone: +32 2 224 4527
website: www.euroclear.com

ICMA

e-mail: NGN@icma-group.co.uk
website: www.icma-group.org

ICMSA

e-mail: NGN@capmktse.com
website: www.capmktse.com

For more information on Eurosystem eligibility criteria for securities to be used as collateral for intra-day credit and monetary policy operations, interested parties should consult:

- ‘The Implementation of Monetary Policy in the Euro Area (February 2005)’ available online at <http://www.ecb.int/pub/pdf/other/gendoc2005en.pdf>
- related documentation available online at www.ecb.int.
ECB press release on the New Global Note:
<http://www.ecb.int/press/pr/date/2006/html/pr060613en.html>

Classical Global Note (CGN)	Form of global note which requires physical annotation on the attached schedule(s) to reflect changes in the issue outstanding amount
Common Safekeeper (CSK)	The entity appointed by the ICSDs to provide safekeeping for securities in NGN form
Common Service Provider (CSP)	The entity appointed by the ICSDs to provide asset servicing for securities in NGN form
Effectuation	The final act of physically signing the NGN to make it a valid security
International Central Securities Depository (ICSD)	Clearstream Banking Luxembourg or Euroclear Bank
Issue Outstanding Amount	For any security, the total remaining indebtedness of the issuer as determined from time to time. Where relevant, the issue outstanding amount is the result of the product between the nominal amount and the pool factor of the security
Issuer – ICSD Agreement	Standard form agreement between the issuer and the ICSDs in relation to the acceptance of securities in NGN form
New Global Note (NGN)	Form of global note that refers to the records of the ICSDs to determine the issue outstanding amount
Standard Market Protocol (SMP)	Document, to be published by the ICMSA and ICMA, providing guidance on best market practice for international debt securities market professionals

The NGN structure is a market initiative that has been put forward by a Market Working Group composed of the ICSDs; some of the leading agent banks active in the international debt securities business (BNP Paribas, Citigroup, Deutsche Bank, HSBC, JP MorganChase and The Bank of New York); and the International Capital Markets Association (ICMA).

To ensure that the market is properly informed of the new structure and that market feedback on relevant matters is received, a dedicated Market Advisory Group (MAG) has been set up. Members of this group include entities active in Europe's capital markets, such as issuers, lead managers, paying agents, ICMA and both ICSDs. Representatives from the European Investment Bank, the European Central Bank (ECB) and the Belgian and Luxembourg national central banks attend as observers.

MAG members include: Citigroup (Chairman: George Faux), BNP Paribas, Clearstream Banking Luxembourg, Credit Suisse First Boston, Deutsche Bank, Euroclear Bank, General Electric, HSBC, ICMA, JP MorganChase, Morgan Stanley and The Bank of New York.