



EUROPEAN CENTRAL BANK

EUROSYSTEM

# Debt issuance in the EU: high level description and questions

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ECB-UNRESTRICTED

George Kalogeropoulos  
Miguel Tahoces

2<sup>nd</sup> Debt Issuance Market Contact Group meeting  
3 November 2020

**1 Introduction to the Pillar 1 of the DIMCG: issue / opportunity****2** Description of the full transaction chain**3** Syndication**4** Auction**5** Next steps

# What is the aim of pillar 1?

- To describe the full transaction chain, from the pre-issuance activities to the post trade ones, of a EUR debt issuance at EU level
- Identify, and quantify if possible, the **costs, risks** and **inefficiencies** potentially associated with different layers/activities in the full transaction chain
- This analysis could also result in the identification of topics where DIMCG members would agree to tackle further under Pillar 2 (harmonisation)

# Scope of the case study

- Initial case study: focus on a ***“plain vanilla” bond issued in EUR by a public institution with European perspective***
- The DIMCG will to consider extending the analysis to ***other case studies*** to also explore other debt securities and issuers (in the upcoming DIMCG meetings)

# Objective of this presentation

The aim of the presentation is twofold:

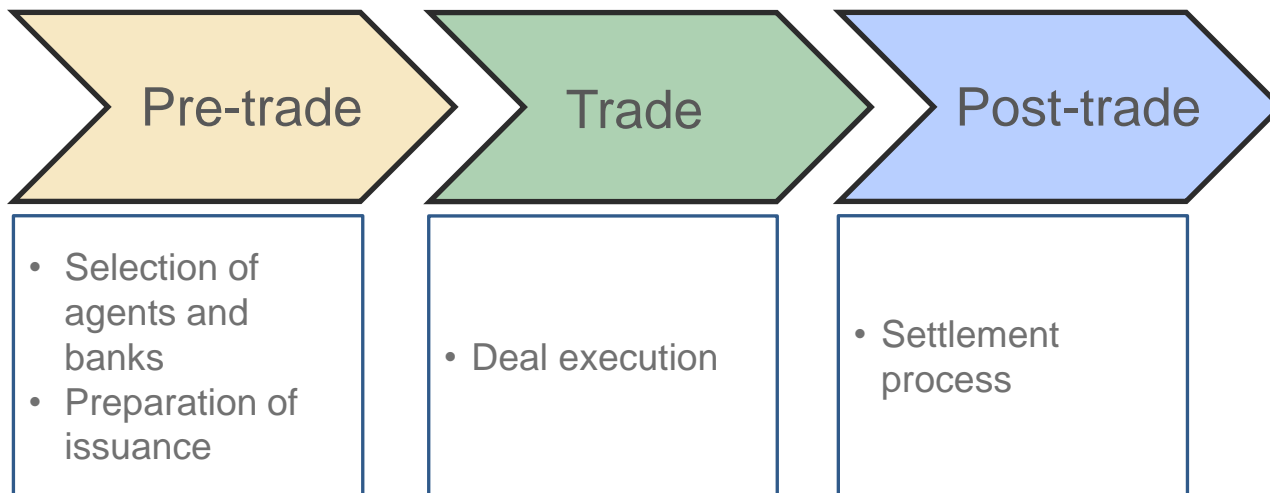
1. Agree on a **high level description of the plain vanilla bond issuance process** applicable to syndication and auction today (for the initial case study);
2. Identify the **tentative questions** which could be shared to the DIMCG members via a questionnaire to identify and quantify, costs, risks and inefficiencies in the debt issuance process.

# Tentative structure of the questionnaire

- Focus primarily on:
  - ✓ **Close questions** (Yes/ No /No opinion)
  - ✓ **Quantitative evidence**: the data would be anonymised, aggregated, possibly via NDAs to be signed with the ECB team
  - ✓ **Open questions** could also be included on a complementary basis
- The objective of this meeting is to calibrate and agree rather than answering the questions

- 1 Introduction to the Pillar 1 of the DIMCG: issue / opportunity
- 2 Description of the full transaction chain**
- 3 Syndication
- 4 Auction
- 5 Next steps

# Full transaction chain

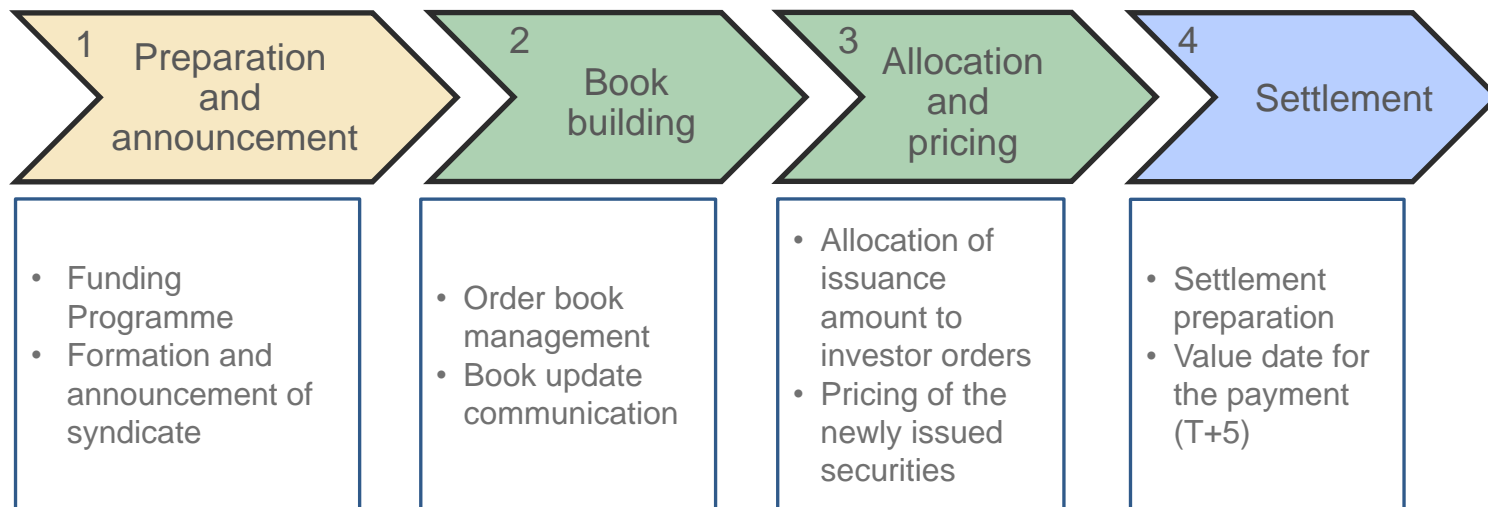




# Overview

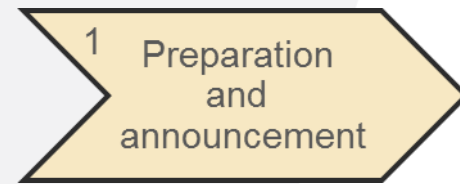
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# Syndication



Would you agree on this high level description? Any missing key element?

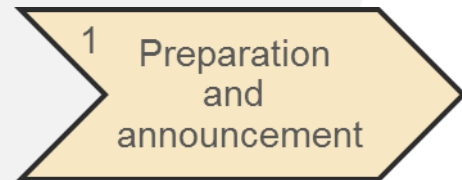
# Definition of the funding programme



- Issuers to announce the tentative periods for syndicated issuances via annual calendar
- Calendar updated throughout the year, either regularly or upon changed funding needs of the issuer
- Issuers to define issuance programmes under which they will issue (most of) their new debt

Any missing element?

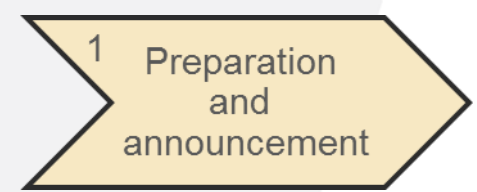
# Questionnaire



Tentative questions	Answers		
	Yes	No	Do not know / No opinion
Which inefficiencies/areas of improvement do you identify?			
• Could you provide quantitative data and examples?			

Any other question which can help the DIMCG to identify inefficiencies?

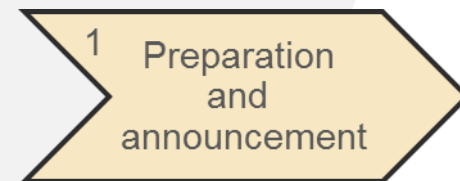
# Formation of the syndicate



- Different practices, depending on the issuer and its requirements
  - Formalised process, mainly for large volume issuers, may include RfP (Request for Proposal), short listing and pitch calls
  - Unformalised selection, e.g. based on long-term relationship between issuers and banks, issuer's experience and preferences
- Official announcement of the mandate to the market

Any missing element?

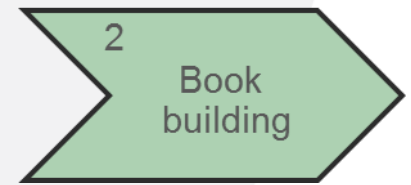
# Questionnaire



Tentative questions	Answers		
	Yes	No	Do not know / No opinion
Do you face risks (operational, other) in this process?			
• If yes, could you please quantify these risks?			
What costs and/or fees? Can you describe them?			
• If yes, can you provide the figures in €?			
Which inefficiencies/areas of improvement do you identify?			
• Could you provide quantitative data and examples?			
• Harmonisation of RfP processes where applicable?			
• Standardisation of the announcement communication?			

Any other question which can help the DIMCG to identify inefficiencies?

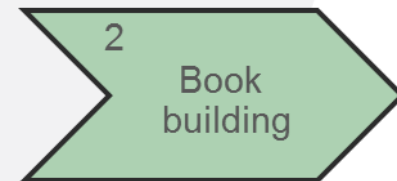
# Order book management



- Orders entered in the order book by dealer banks
- The issuer and all members of the syndicate continuously check the order book to reduce the risk of e.g. incorrect or duplicate orders

Any missing element?

# Questionnaire

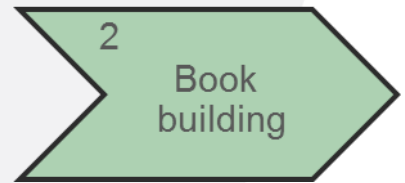


Tentative questions	Answers		
	Yes	No	Do not know / No opinion
Do you face risks (operational, other) in this process?			
• If yes, could you please quantify these risks?			
What costs and/or fees? Can you describe them?			
• If yes, can you provide the figures in €?			
Which inefficiencies/areas of improvement do you identify?			
• Could you provide quantitative data and examples?			
• Harmonised investor identification, e.g. via LEI or commonly agreed codes?			
• Harmonised investor type codes and definitions?			

Any other question which can help the DIMCG to identify inefficiencies?



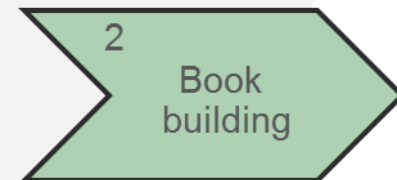
# Order book update and closure



- Issuers may give status updates of the order book, containing order book size and potentially updated price guidance
- Eventually, the issuer decides on a final spread, final issue size and closure time of the order book
- Book updates (incl. fixing/closing/launch) are usually carried to the investors via the syndicate banks

Any missing element?

# Questionnaire



Tentative questions	Answers		
	Yes	No	Do not know / No opinion
Do you face risks (operational, other) in this process?			
• If yes, could you please quantify these risks?			
What costs and/or fees? Can you describe them?			
• If yes, can you provide the figures in €?			
Which inefficiencies/areas of improvement do you identify?			
• Could you provide quantitative data and examples?			
• Automation and/or harmonisation of the announcement?			

Any other question which can help the DIMCG to identify inefficiencies?

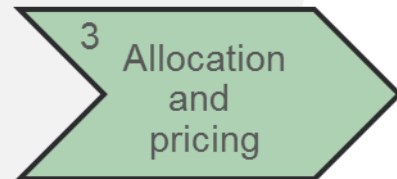
# Allocation



- Syndicate banks make allocation proposal to the issuer, based on predefined allocation principles
- Issuer may adjust the proposed allocation and makes final allocation decision
- Dealer banks individually inform their investors about their allocated quantities

Any missing element?

# Questionnaire



Tentative questions	Answers		
	Yes	No	Do not know / No opinion
Do you face risks (operational, other) in this process?			
• If yes, could you please quantify these risks?			
What costs and/or fees? Can you describe them?			
• If yes, can you provide the figures in €?			
Which inefficiencies/areas of improvement do you identify?			
• Could you provide quantitative data and examples?			
• Could data analytics, AI be supported/improved in this step?			
• Do you see a need to improve communication channels between banks and investors?			

Any other question which can help the DIMCG to identify inefficiencies?

# Pricing



- Pricing of the transaction, i.e. fixing of the related benchmark (e.g. mid-swap)
  - With the pricing, the deal is finalised and post-trade processing starts
- Final price and final characteristics of the issue are communicated to investors/the market

Any missing element?

# Questionnaire



Tentative questions	Answers		
	Yes	No	Do not know / No opinion
Do you face risks (operational, other) in this process?			
• If yes, could you please quantify these risks?			
What costs and/or fees? Can you describe them?			
• If yes, can you provide the figures in €?			
Which inefficiencies/areas of improvement do you identify?			
• Could you provide quantitative data and examples?			
• Could data analytics, AI be supported/improved in this step?			
• Do you see a need to improve communication channels between banks and investors?			

Any other question which can help the DIMCG to identify inefficiencies?

# Settlement at the CSD



- Settlement agents are informed about the transaction
- Settlement instructions are created in the CSD
- Investors provide liquidity to execute the transaction
- Positions are created in the CSD, mostly T+5

Any missing element?

# Questionnaire



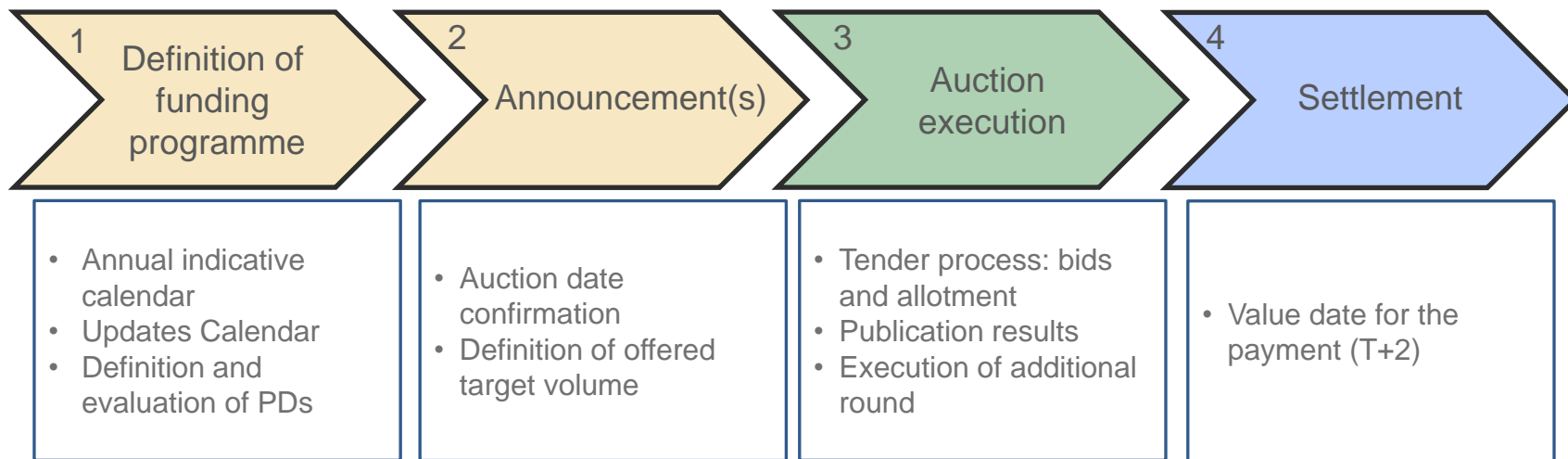
Tentative questions	Answers		
	Yes	No	Do not know / No opinion
Do you face risks (operational, other) in this process?			
• If yes, could you please quantify these risks?			
What costs and/or fees? Can you describe them?			
• If yes, can you provide the figures in €?			
Which inefficiencies/areas of improvement do you identify?			
• Could you provide quantitative data and examples?			
• Improvement of liquidity provision?			
• Settlement in Central Bank Money or Commercial Bank Money?			
• Extension of CSD links network in Europe favourable?			
• Reduction of time between trade and settlement ( $T+x < 5$ ) needed?			
Any other question which can help the DIMCG to identify inefficiencies?			



# Overview

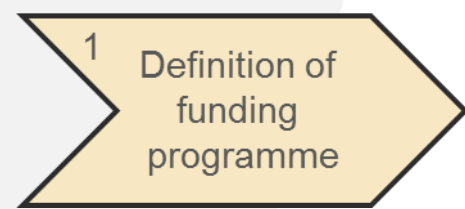
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# Auction



Would you agree on this high level representation? Any missing key element?

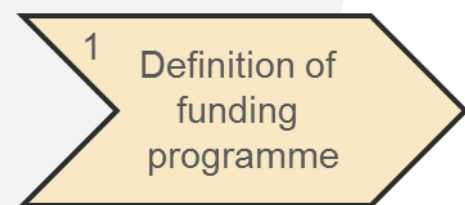
# Definition of the funding programme



- Issuer to announce the tentative dates for auctions via annual calendar
- Calendar updated throughout the year via monthly or quarterly updates
- Primary Dealers (PD) systems in place for different issuers: evaluation and ranking of PDs

Any missing element?

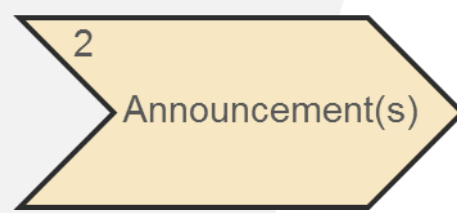
# Questionnaire



Tentative questions	Answers		
	Yes	No	Do not know / No opinion
Do you face risks (operational, other) in this process?			
• If yes, could you please quantify these risks?			
What costs and/or fees? Can you describe them?			
• If yes, can you provide the figures in €?			
Which inefficiencies/areas of improvement do you identify?			
• Could you provide quantitative data and examples?			
• Would unique set of criteria to define and evaluate Primary Dealers be beneficial?			
• Single jointly annual tentative calendar?			

Any other question which can help the DIMCG to identify inefficiencies?

# Announcement(s)



- Auction date confirmation
- Definition of offered target volume

Any missing element?

# Questionnaire

2

Announcement(s)

Tentative questions	Answers		
	Yes	No	Do not know / No opinion
Do you face risks (operational, other) in this process?			
• If yes, could you please quantify these risks?			
What costs and/or fees? Can you describe them?			
• If yes, can you provide the figures in €?			
Which inefficiencies/areas of improvement do you identify?			
• Could you provide quantitative data and examples?			
• Harmonised calendar for IFI/supranational issuance in the EU?			

Any other question which can help the DIMCG to identify inefficiencies?

# Auction execution



- Tender process: bids and allotment
- Publication results
- Execution of additional round(s)

Any missing element?

# Questionnaire



Tentative questions	Answers		
	Yes	No	Do not know / No opinion
Do you face risks (operational, other) in this process?			
• If yes, could you please quantify these risks?			
What costs and/or fees? Can you describe them?			
• If yes, can you provide the figures in €?			
Which inefficiencies/areas of improvement do you identify?			
• Could you provide quantitative data and examples?			

Any other question which can help the DIMCG to identify inefficiencies?



# Settlement at the CSD



- Settlement instructions and positions are created in the Central Securities Depository (CSD)
- Value date for the payment (T+2)

Any missing element?

# Questionnaire



Tentative questions	Answers		
	Yes	No	Do not know / No opinion
Do you face risks (operational, other) in this process?			
• If yes, could you please quantify these risks?			
What costs and/or fees? Can you describe them?			
• If yes, can you provide the figures in €?			
Which inefficiencies/areas of improvement do you identify?			
• Could you provide quantitative data and examples?			
• Commercial Bank vs Central Bank money settlement?			
• Shorter settlement cycle than T+2?			

Any other question which can help the DIMCG to identify inefficiencies?

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# Way forward

DIMCG members are invited to agree on:

- High level description of the issuance process as it stands (to be further elaborated/detailed in the final DIMCG advisory report, if needed);
- Questionnaire to be circulated to DIMCG participants for response by mid December;
- Results to be discussed in January 2021 DIMCG meeting.

# Thank you for the attention

[www.ecb.europa.eu/paym](http://www.ecb.europa.eu/paym)

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