



EUROPEAN CENTRAL BANK

EUROSYSTEM

# Harmonisation of term sheets

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Summary of DIMCG 2<sup>nd</sup>  
separate session on 24  
February 2021

5<sup>th</sup> Debt Issuance Market Contact Group meeting  
10 March 2021



- In the DIMCG meeting of 27 January it was agreed to hold a second dedicated term sheet session with volunteering members where:
  - ✓ Further discussion should be based on a draft model term sheet
  - ✓ the scope of harmonisation, inter alia, should focus on the use of conventions: calendar, business day, rounding and day-count
- The session was held on 24 February with the discussion benefiting from participants' contributions and expertise
- The following slides aim to provide for discussion the key takeaways from the second dedicated session

# Objectives of harmonising Term sheets

- Broad consensus that Term sheet is an interesting area for harmonisation
- Focus on term sheet core data elements that can be subject to standardisation
- Foster automation
- Reduce the current manual procedures which are error prone
- Increase comparability among market participants
- No need for DIMCG to provide a single standardised model term sheet or a narrow set of values for each field, but a model in the context of plain vanilla EUR MTNs could inspire further work on term sheet harmonisation
- It is envisaged to provide recommendations and respective prospects and barriers for its implementation in the DIMCG final report

## First stream – Model term sheet

### ➤ **Assumptions:**

- Start from a plain vanilla MTN and expand afterwards
- Economic content of a term sheet should not be unduly restricted, like the ones regarding amounts and cashflows
- Standardising should not be confused with simplification, common standards could support also more complex structures
- To progress on technical / data standardisation one needs a common dictionary / taxonomy
- A great deal of empirical work (e.g. analysing and extract data elements from past transactions) may be needed to support the creation of a final standard

## First stream – Model term sheet

### ➤ **Prospects:**

- **Technical data integration** of commercial term sheet with the final terms (and ultimately with the global note) on a **smooth and automatic transition** with manual intervention as less as possible to avoid operational errors
- Reduce the **time spent** on validations and cross-checks
- Focus on fields that are relevant for plain EUR denominated plain vanilla bonds, **avoiding redundancy and aligning** the fields which have different names but have the same meaning
- The **proliferation of service providers** of automatic term sheet points towards the need for harmonisation: Having standards **fosters competition** in EUR debt issuance market
- Ultimately, having a broad range of participants integrated in data flows with agreed standards could **promote a much more efficient deal finalisation and closing**

## First stream – Model term sheet

### ➤ **Barriers:**

- Higher standardisation may give less optionality to the Issuers
- More complex programs are difficult to standardise (potentially very high number of fields needed)
- Some data fields may be very subjective with a very wide range of possible values / complex information and difficult to standardise
- Extra and in some cases substantial costs and efforts required to update existing funding programs and related internal procedures

## Second stream – Term sheet conventions

### ➤ **Calendar convention:**

- The use of the TARGET2 calendar seems to be the dominant practice for high-quality EUR issuance. Nevertheless, there are some issuers who use the national calendar of their place of establishment to ensure that staff is always available (i.e. so that key events do not fall on national bank holidays).
- **Prospects of converging:** **High**, but should be collected information if there are more market participants that uses national calendars when issue high-quality EUR denominated plain vanilla bond.

# Main key takeaways

## Second stream – Term sheet conventions

### ➤ **Business day convention:**

- For plain vanilla high quality EUR debt the **Following** (either adjusted or unadjusted) and **Modified Following** (in combination with **adjusted**) business day conventions are the **dominant**. Other conventions such as Previous seem more legacy (still apply on outstanding issues).
- **Prospects of converging:** **High**, but should be asked to the members if beyond the usage of the top 3: Following (either adjusted or unadjusted) and Modified Following (in combination with adjusted), at least for new issuances, would still exist uses cases for using other conventions for plain vanilla EUR bonds.



## Second stream – Term sheet conventions

### ➤ **Day-count:**

- **The top 6** (as also listed in the Annex 8 of *International Securities Operational Market Practice Book*) **are the most used** but the day-count conventions **go beyond the debt issuance market**. Among the considerations in choosing day-count conventions are the availability and efficiency of hedging, habits / procedures / systems of the issuer and the expectations of investors.
- **Prospects of converging: Medium**, given the link between the derivative markets and the bond issuance market. Nevertheless, participants could inform the business cases for not using one of the top 6 day-count conventions, when no other (hedging) products are involved.

## Next steps:

- Considering the EUR-denominated plain vanilla bonds, DIMCG workshop participants will be asked to provide:
  - ✓ Comments on which aggregated parts or more relevant parts of the term sheet could be considered as good target for harmonisation
- Report back to the DIMCG with the outcome of this session
- Ask DIMCG members to provide situations or business cases (if applicable) for:
  - ✓ Using national calendars
  - ✓ Choosing other conventions beyond the Following (either adjusted or unadjusted) and Modified Following (in combination with adjusted)
  - ✓ Selecting other than top 6 day-count conventions, when no other (hedging) products are involved