



International Capital Market Association

Primary Market Certificate

Programme Syllabus

1. Introduction

ICMA's Primary Market Certificate (formerly known as the IPMA Diploma) is a second level qualification intended for persons working in the origination, syndication and transaction management areas of investment banks or securities houses. It is also a valuable qualification for capital markets lawyers looking to expand their understanding of the workings of the primary markets and for those employed in institutions that may be looking to raise funds in the international capital markets.

The Programme is most suited to those in the early stages of focussing on primary market activities, but is open to anyone who would benefit from a more complete knowledge of the debt primary markets.

This unique certificate programme examines the entire life cycle of bond issuance, from considering the financing choices through to the closing of transactions in the marketplace. While the course examines the theoretical principles underpinning the markets and the instruments and financing techniques that are available, emphasis is placed on interpreting and using that knowledge in practical case studies.

In addition, due to the dynamic nature of the primary markets, the programme emphasises current market practice and much use is made of market practitioners to discuss key areas. Candidates who gain this qualification therefore will have all the requisite tools to add value now to their company's activities in the Primary Markets.

As a second-level qualification the PMC syllabus requires that the candidate should already have some familiarity with:

- Fundamental numeric skills, the time value of money, PV, yields and yield curves
- The main debt market sectors, products and key players

The academic content of the PMC is overseen by the ICMA Centre at the University of Reading, England.

Accreditation

The ICMA Primary Market Certificate programme is an accredited course under the Law Society's CPD Scheme. Solicitors may claim 30 hours CPD credit for their attendance on the full Certificate programme.

(The Law Society requires all accredited CPD providers to provide documentation that CPD course attendees are, in fact, present during the course. ICMA can only certify CPD credit for the actual time solicitors are in attendance and so a system of signing-in and signing-out is used. We are required to keep attendance records for at least two years from the date of each course.)

2. Structure of the PMC Syllabus

Because of its use of professional experts, key market practitioners and practical case studies the PMC structure i.e. the order of the programme and the content of modules, is flexible. While the order of modules may change the syllabus covers the following areas:

1. Corporate Finance Theory

Understanding the financing decision and the choice between debt and equity.

2. Borrowers

Examining the characteristics of different borrower types, corporate, sovereign and banks

3. Bonds

Defining the attributes of a bond and examining key variations

4. Credit

Understanding the credit rating process, CRAs and credit enhancement

5. Working with Swaps

Understanding swaps and swap pricing and the value of comparative advantage in the liability context

6. Hybrid Capital

Hybrid capital structures and treatment by CRAs and regulators

7. Securitisation

Understanding the key drivers for securitisation and structuring transactions

8. Investor Protection

Events of default, debt ranking and covenants

9. Liability Management

Reviewing current liability management techniques, their applicability and outcomes

10. Syndication

Syndication practices, their aims and effects

11. Pricing, Launch and Distribution

Pricing for success, launch requirements and good market practice

12. IPMA's Role and Legal and Documentation

Full documentary requirements for a transaction

13. Closing and Settlement procedures

14. Regulation and the Primary Markets

US Regulation

EU Regulation

3. Learning Objectives

Below are listed the specific learning objectives (LOs) for each of the topics covered in the PMC syllabus. The purpose of the LOs is to give candidates a clear 'road map' of the competencies that may be required to demonstrate in the Certificate exam.

While every LO is examinable, exam questions may require interpretation of the LO in given specific cases.

1. Corporate Finance Theory

The aim of this introductory session is to lay down a theoretical foundation on which to base our examination of debt financing. Different financing options are considered and costs and benefits analysed.

By the end of this module candidates should be able to:

- Describe the role of capital markets
- Describe the key corporate finance decisions
- Define the concept of Net Present Value (NPV) and its role in the financing decision
- Distinguish between the key attributes of debt, equity and retained earnings from a financing perspective
- Demonstrate how to calculate the cost of equity, retained earnings and debt using the Capital Asset Pricing Model (CAPM) or Dividend Evaluation Model
- Define the concept of the Weighted Average Cost of Capital (WACC) and demonstrate how this is calculated
- Demonstrate the effects of financial leverage on the cost of capital
- Explain the issues involved in choosing an optimal capital structure
- Define the Miller and Modigliani (M&M) 'Irrelevance Theorems' and the assumptions on which they are based
- Explain the effects of relaxing key M&M assumptions
- Demonstrate how:
 - a) the individual financing requirement
 - b) market conditions,influences the financing decision

(The next three modules, *Borrowers*, *Bonds* and *Credit* are the building blocks when considering all the options available to borrowers looking to raise funds in the debt markets. Candidates will be asked to draw upon this knowledge in their 'break-out' sessions when considering financing strategies for given borrower profiles.)

2. Borrowers

The aim of this section is to examine the many different needs of borrowers in the debt markets. Specifically we examine the features of sovereign, supranational and bank borrowing.

By the end of this module candidates should be able to:

- Define a comprehensive list of borrowers needs when approaching the negotiable debt market
- Describe the conditions necessary for borrowing
- Define the attributes of sovereign borrowing and explain the 'sovereign ceiling'
- Outline the Sovereign Debt Restructuring Mechanism (SDRM) debate
- List and describe the ICMA recommended 'Collective Action Clauses'
- Explain the role of 'supranational' borrowers and their capital structure
- Define the concept of capital and the capital /asset ratio for banks
- Outline the 1988 Basel Capital Accord, listing the risk weightings
- Define:
 - Total Capital
 - Tier One capital
 - Upper and Lower Tier 2 capitaland calculate minimum risk capital requirements
- Formulate and explain typical Tier 2 FRN structures

3. Bonds

The aim of this module is to review the many variants of structures and features available to international bond issuers.

By the end of this module candidates should be able to:

- Describe the cycle of issuance from bank debt to Eurobond
- Define precisely:
 - Foreign bond
 - Eurobond
 - Global bond
 - 'Euro-Securities'
- Describe the key characteristics of a Eurobond and how this influenced the market's development
- Outline the key features and typical investors of the following Eurobonds:
 - 'Bullets'

- Zero coupon
 - Index-linked
 - FRNs
 - convertibles
 - exchangeables
 - EMTNs
 - Structured Notes
- Explain the following features and why borrowers may incorporate them:
 - Puts
 - Calls
 - Step-ups
 - Sinking fund
 - Purchase fund

4. Credit

In this module the aim is to review the requirement and process of seeking a credit rating. We also consider methods of credit enhancement

By the end of this module candidates should be able to:

- Define precisely:
 - a credit rating
 - the long term rating scale
 - the short term rating scale
 - the credit outlook
 - Credit Watch
- Describe the risks analysed in the rating process and identify which risks are most important
- Describe the rating process
- Explain the information requirements when seeking a rating
- Explain 'rating triggers' and why they have been used
- Identify the reasons why the role of the rating agencies has been questioned in recent years and outline the current stance of relevant regulators
- Define the principal methods of credit enhancement
- Explain the following guarantees
 - Partial
 - Statutory
 - Contractual
- Describe what is meant by an insurance 'wrap'
- Explain the limitations of multi-line insurers in credit enhancement

5. Working with Swaps

It is estimated that 90% of bond issuance involves a swap of one type or another. The aim of this module is to examine how swaps deliver advantages to borrowers. We look at interpreting swap prices and how to calculate 'all-in' costs for borrowers.

By the end of this module candidates should be able to:

- Define:
 - Interest rate swap
 - Currency swap
 - Basis swap
 - Coupon swap
 - Asset swap
 - Liability swap
- Explain the rationale of liability swaps for borrowers
- Describe interest rate swap quoting conventions and complete worked examples
- Explain the concept of comparative advantage for liability swaps and complete worked examples
- Explain the relationship between
 - The par curve
 - The zero curve
 - The implied forward curveand their role in swap pricing
- Calculate the 'all-in' cost of financing of a swapped new issue
- Explain the rationale for currency swaps for borrowers and their limitations

6. Hybrid Capital

There has been a massive growth in hybrid capital instruments in the markets. This module examines the rationale behind the use of hybrid instruments and how such instruments are viewed by key interested parties.

By the end of this module candidates should be able to:

- Explain what is meant by Hybrid Capital instruments and the 'debt / equity continuum'
- Explain why the following types of borrowers may issue hybrid capital instruments:
 - Corporates
 - Banks
 - Insurance Companies

- Provide an explanation of Standard and Poor's treatment of hybrid capital instruments including defining:
 - Total Adjusted Capital (TAC)
 - Adjusted Common Equity (ACE)
 - 'Super' hybrid
 - 'Vanilla' hybrid
- Provide an explanation of the Moody's refined 'Tool kit' for hybrid capital instruments and the significance of Basket D issuance
- Explain the CRAs 'notching' procedures according to the specific features of a hybrid capital structure

7. Securitisation

Securitisation techniques have revolutionised the options available to capital market borrowers. The aim of this module is to understand key structural elements and the financing benefits that may be provided.

By the end of this module candidates should be able to:

- Define securitisation and describe a generic structure
- Identify the features of an asset that may make it suitable for securitisation
- Explain the role of the following parties:
 - The Originator
 - The Seller
 - The Servicer
 - The SPV
- Explain the terms:
 - 'true sale'
 - 'bankruptcy remote'
 - 'off balance sheet'
- Describe the nature of risk transfer in a securitisation transaction
- Explain the reasons for 'tranching' in securitisation transactions
- Describe the key drivers for securitisation transactions and give examples
- Outline the features of the following transfer techniques
 - Sale
 - Novation
 - Assignment
 - Participation
- Describe the features of the following types of securitisation transactions:
 - Mortgage-backed
 - Credit Card Receivables
 - Consumer loans
 - CDOs

8. Investor Protection

With many high profile bond defaults in recent years investor protection has moved to centre stage. The aim of this section is to examine the protections available to bond investors and appraise their effectiveness.

By the end of this module candidates should be able to:

- Explain what is meant by the following terms
 - Event of Default
 - Acceleration
 - Cross default
- Define security on a bond and explain the following:
 - Fixed / floating charge
 - Collateral Trust bonds
 - Equipment Trust Certificates
- Explain the different rankings of unsecured debt and the protections or otherwise provided by the following:
 - 'pari passu'
 - Negative Pledge
- Define financial and non-financial covenants, give examples, and explain their use in transactions.
- Describe a typical modern 'Change of Control' covenant and the reasons for its increasing use in new issues.
- Differentiate between the role of a fiscal / paying agent and a Trustee from the perspective of both the issuer and the investor.

9. Liability Management

As the debt markets become more complex and sophisticated so more borrowers view financing as part of an overall liability management exercise. This module examines the principal types of liability management transactions, what drives them and what advantages they deliver. We also consider the attitude of regulators in this growing market.

By the end of this module candidates should be able to:

- Define what is meant by Liability Management and describe the four general types of transactions
- Describe and appraise the Open Market Repurchase mechanism
- Describe and appraise the Public Tender Offer mechanism
- Describe and appraise the Exchange Offer mechanism
- Outline the Consent Solicitation/ note holder meeting process and assess its advantages and disadvantages

- Explain the key drivers behind the various liability management exercises
- Describe the three levels of regulatory considerations when considering a liability management exercise
- Describe the informal reverse bookbuilding process and when it is appropriate to use it

10. Syndication

Syndication lies at the heart of the Eurobond market. This module appraises different syndication techniques and how well they have delivered their intended aims.

By the end of this module candidates should be able to:

- Explain the reasons for syndicating issues
- Describe the different syndicate roles and explain the concept of underwriting
- Describe the influences that have impeded the effective distribution of paper throughout the history of syndication
- Explain and appraise the 'Bought Deal' method of syndication
- Explain and appraise the 'Fixed Price Re-offer' method of syndication
- Explain the 'Pot System' of syndication and the popularly used variants
- Assess the 'pot system' as an effective method of meeting the needs of the syndication process.

11. Pricing, Launch & Distribution

This module begins with a 'break-out' session where candidates complete a bond pricing exercise using comparative data. Results are critically appraised by the whole group.

The process of launching bonds continuously changes as syndication techniques and technology changes. The aim of the rest of the module is to examine current practise and identify key requirements in the process. We also examine the new regulatory measures impacting on the distribution of new issues

By the end of this module candidates should be able to:

- Explain the role of the following:
 - The Mandate letter
 - The 'Bookrunner' invitation
 - The syndicate manager
 - The Invitation telex

- Describe the IPMA minimum required contents of the Invitation Telex and its timing
- Describe the additional requirements if a transaction is being done off a Debt Programme
- Explain the permitted role of investment analysts in the marketing of new issues
- Explain the regulators requirements as regards the allocation process
- Outline IPMA recommendations on fees and expenses and their timing
- Explain what is meant by 'stabilisation' (and 'Greenshoe options') and the key requirements of regulators

12. IPMA's role and Legal & Documentation

This module examines the role and value of IPMA, and in particular the IPMA Handbook. We then consider the key legal documents required for an issue and consider the risks that they seek to guard against.

By the end of this module candidates should be able to:

- Describe IPMA's/ICMA's role in the debt primary markets
- Explain the nature of IPMA Recommendations and to whom they apply
- Identify the key IPMA Recommendations
- Identify the key documents in a bond transaction, the signatories and whose responsibility they are
- Identify the key documents if the issue is being launched under a debt programme
- Explain the purpose and process of 'Due Diligence'
- Describe the contents of the Offering Circular
- Identify the main risks for investors in new issues
- Explain the typical protection for investors if taxes change
- Describe the contents of the Subscription Agreement and the Agreement Among Managers
- Identify the key IPMA Standard Documentation and when it may be used
- Explain the role of the following:
 - Issuers representations, warranties and indemnity
 - Legal opinions
 - Auditors comfort letters
 - Conditions precedent
 - Force Majeure Clause

13. Closing & Settlement

This module looks at the necessary requirements for closing a bond transaction. We look at the settlement process and consider changes in the clearing and settlement landscape.

By the end of this module candidates should be able to:

- Identify the necessary documents and opinions required prior to closing
- Outline the new issues acceptance process and time frame
- Define the role of:
 - CCPs
 - ICSDs
- Explain the process of new issue delivery against payment through a common depository
- Explain the role of the common depository in the closing of new issues and the new global note(NGN)
- Explain the use of definitive certificates and the role of the specialised depository
- Outline the 'Giovannini Barriers' and the EU's proposed code of conduct for improving the efficiency for clearing and settlement in Europe

14. Regulation and the Markets

This module looks at the development of US regulation as the Euromarkets have developed and the key requirements for bond issuers.

As the FSAP nears completion the module also looks at those EU Directives which have an impact on the primary markets.

By the end of this module candidates should be able to:

- Outline the key measures in the US Securities Act of 1933 and Securities Exchange Act of 1934
- Outline the key measures of the Sarbanes Oxley Act of 2002 and what they were looking to address
- Explain the reasons for, and the terms of, Rule 144A
- Explain the reasons for, and the terms of, Regulation S
- Outline the key US Selling restrictions and TEFRA C and D rules
- Explain the FSAP and the 'Lamfalussy' Process
- Explain the concept of 'passporting' in the EU

- Outline the key terms of the EU Prospectus Directive with regard to debt issuance
- Outline the key terms of the EU Transparency Directive with regard to debt issuance
- Outline the key terms of the EU Market Abuse Directive with regard to debt issuance
- Identify the key additions to MiFID from the ISD
- Explain the new capital adequacy regime under Basel 2 and the EU Capital Requirements Directive
- Outline the new risk weightings under Basel 2
- Explain the likely effects of Basel 2 (EU Capital Requirements Directive) on the primary markets