International debt securities in global registered form and in individual note form

Frequently asked questions

November 2009
1. **Generic background**

1.1 **Why will a new safekeeping structure (NSS) for international debt securities in global registered form be introduced?**

After the introduction of the New Global Note (NGN) structure in June 2006, which applies to international debt securities in global bearer form, the Eurosystem required the ICSDs to review the current custody arrangements for international debt securities in global registered form. Further to such review, the ICSDs have proposed new safekeeping arrangements for such securities, alongside the existing Classical Global Note (CGN) structure.

The new safekeeping structure (NSS) will be launched on 30 June 2010. As per its announcement dated 22 October 2008, the Eurosystem will make the new structure mandatory for newly issued international debt securities in global registered form intended to be recognised as eligible collateral for Eurosystem monetary policy and intraday credit operations as of 1 October 2010.

1.2 **What will happen to international debt securities in individual note form (securities represented by definitive certificates and issued in bearer form)?**

The Eurosystem has decided to withdraw collateral eligibility for these securities as of 1 October 2010. Securities in individual note form issued in the existing holding structure up to that date will remain eligible as collateral for Eurosystem monetary policy operations until maturity. As per Eurosystem’s announcement dated 22 October 2008, securities issued after 30 September 2010 will no longer be recognised as eligible collateral for Eurosystem operations.

1.3 **What are the fundamental differences between a Classical Global Note (CGN), a New Global Note (NGN) and the new safekeeping structure (NSS) for registered form global notes?**

A CGN is represented by a bearer or a registered form global note that is deposited with a Common Depository (CD) on behalf of the two ICSDs. The CD provides safekeeping and asset servicing for such securities.

The NGN structure only applies to global bearer form securities. The terms of the NGN provide that the conclusive evidence of the issue outstanding amount is determined by the ICSDs’ records. The NGN is safekept by a Common Safekeeper (CSK) and serviced by a Common Service Provider (CSP).
Registered form global notes issued under the new safekeeping structure will have the same legal form as a standard registered form CGN, the differences being that:

- These registered form global notes will be safekept by an ICSD as the CSK and serviced by a CSP; and
- The registered owner will be a nominee of such ICSD CSK rather than a nominee of the CD.

Compared to an NGN, registered form global notes safekept by an ICSD CSK will not include the language that the conclusive evidence of the issue outstanding amount is determined by the ICSDs’ records.

1.4 When will the new safekeeping structure (NSS) for registered global notes be put in place?

The NSS for registered form global notes will be available as from 30 June 2010.

1.5 Will there be a grandfathering period after the launch date of the NSS?

The Eurosystem has confirmed a grandfathering period ending on 30 September 2010, whereby a registered form CGN deposited with a CD and issued before or on that date will continue to be eligible as collateral for Eurosystem operations until its maturity. In other terms, existing issues issued by 30 September 2010 will continue to be eligible for Eurosystem operations.

1.6 Will CGNs in registered form continue to exist in parallel with registered form global notes issued under the NSS?

The ICSDs will offer a maximum of flexibility to issuers, as was done for notes in global bearer form. The issuer will have the possibility to choose between two safekeeping options:

- To safekeep registered form global notes with an ICSD CSK, thus making them potentially eligible as collateral for Eurosystem operations - that is, the NSS; or
- To deposit the CGN in registered form with a CD - that is, the classic safekeeping structure (CSS).

Please refer to Question 2.3 for the ICSD’s eligibility criteria for the NSS.
1.7 Which forms of international debt securities can be supported in the New Safekeeping Structure (NSS) and the Classic Safekeeping Structure (CSS)?

<table>
<thead>
<tr>
<th>International debt securities</th>
<th>New Safekeeping Structure (NSS)</th>
<th>Classic Safekeeping Structure (CSS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bearer form CGN</td>
<td>Not applicable</td>
<td>YES</td>
</tr>
<tr>
<td>Registered form CGN</td>
<td>YES a</td>
<td>YES</td>
</tr>
</tbody>
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a. Subject to Question 1.1 above and Question 2.3 below.

1.8 Will there be a possibility to switch registered form CGNs issued under the CSS into the NSS?

There will be no need to switch registered form CGNs issued up to 30 September 2010, as they will remain eligible as collateral for Eurosystem operations.

For registered form CGNs issued as of 1 October 2010, the ICSDs will propose a switch procedure from CSS to NSS, upon specific issuer’s request, for a limited number of scenarios, for example in case of amendment to the Eurosystem eligibility criteria for eligible currencies and/or eligible issuing entities. (See Question 2.3 for the ICSD’s eligibility criteria for the NSS.)
2. Eurosystem collateral eligibility

2.1 What impacts does the NSS have on the eligibility of securities as collateral for Eurosystem credit and monetary purposes?

In accordance with the Eurosystem announcement, all newly issued registered form CGNs as of 1 October 2010 with the ICSDs as place of primary deposit will have to be deposited with an ICSD CSK and registered in the nominee name of the ICSD CSK in order to be potentially eligible as collateral for Eurosystem operations. (See also Question 1.5.)

All actual determinations of eligibility are, and will continue to be, made by the Eurosystem and its members. The above information is based on currently available information but remains subject to change.

2.2 Will the Eurosystem collateral eligibility criteria change with the launch of the NSS?

The current Eurosystem collateral eligibility criteria are, and will continue to be, maintained by the Eurosystem. These criteria can be consulted on the ECB web site (collateral eligibility section) at www.ecb.int.

Registered form CGNs with the ICSDs as the primary place of primary deposit issued after 30 September 2010 will have to be safekept with an ICSD CSK and registered under the nominee of such ICSD to be potentially eligible as collateral for Eurosystem operations.

2.3 On which Eurosystem collateral eligibility criteria will the ICSDs base their decision to safekeep registered form CGNs in the NSS?

The NSS will be available for registered form CGNs if they meet the following Eurosystem collateral eligibility criteria:

- The note is issued by an entity resident in a European Economic Area (EEA) or G-10 country, or by a supranational entity;
- The note is denominated in an ECB-eligible currency;
- The issue documentation indicates that the security is to be held in a manner that would allow it to be eligible as collateral for Eurosystem intraday credit and monetary policy operations.

(Please also refer to Question 4.8.)
3. Impact on issuers

3.1 Who can decide to issue NGN/CGN bearer or registered form under the CSS or registered form CGNs to be held under the NSS?

The decision as to the form of the security is left to the issuer, that is, either NGN or CGN (in bearer or registered form). The safekeeping structure in CSS or NSS for registered form CGN will depend on various criteria described in Question 2.3.

3.2 What instruments can be issued as registered form CGNs to be held under the NSS?

Issuers can choose the NSS for short-, medium- and long-term debt securities in global registered form with the ICSDs as place of primary deposit solely under the conditions set forth above in the response to Question 2.3.

International debt securities in global bearer form will continue to be issued in CGN or NGN form.

3.3 Should STEP-labelled securities be issued under the NSS for registered form CGNs?

In order to be eligible as Eurosystem collateral, STEP-labelled securities have to comply with the ECB’s collateral eligibility criteria. As of 1 October 2010, STEP-labelled securities issued as registered form CGNs with the ICSDs as place of primary deposit will have to be held in the NSS.

3.4 In which currency can registered form CGNs, held in the NSS, be denominated?

Registered form CGNs held in the CSS can be denominated in any currency eligible in the ICSDs. However, to be held in the NSS and become potentially eligible as collateral for Eurosystem operations, registered form CGNs will have to comply with eligibility criteria defined by the Eurosystem. (See Question 2.2 and Question 2.3.)

3.5 Can I use EPIM to allocate an ISIN for registered form CGNs under the NSS?

Yes. The new version of EPIM implemented in July 2008 enables dealers and IPAs to request ISIN allocation for all international debt securities issued under programme.
3.6 Does the NSS involve any additional cost for the issuer community?

The NSS for registered form CGNs replicates the current international market fundamentals. Therefore, no additional costs are expected, except those linked to the minimal adaptation of some of the issuance documentation (for example, additional reference for possibility to have registered form CGNs deposited with an ICSD CSK).
4. Legal questions

4.1 Are there any new legal requirements for the issuer and its’ agent to issue registered form CGNs under the NSS?

As for NGN issuances, the issuer should identify in the documentation that the note is to be held in a manner that makes it potentially eligible as collateral for Eurosystem operations so that the issuer agent can properly allocate safekeeping to an ICSD CSK. That is, in NSS.

In order to standardise market processing, the record date must be clearly indicated in the final terms and conditions as payment date minus one business day (Record Date = Payment Date - 1 Business Day).

4.2 Why will registered form CGNs under the NSS not be considered as a new legal form of security?

As with registered form CGNs safekept with a CD, the records of the issue maintained by the registrar are the legal records. We do not expect that a change of the safekeeper from a CD to an ICSD CSK will require more than minimal adaptation of the current forms of registered form CGNs used today.

As there are no new legal requirements, the standard legal documentation for international securities can be used and adapted to the above specifications. Each issuer must consult its legal adviser for any further legal assistance.

4.3 If registered form CGNs to be held under the NSS does not have a new legal form, how will they be potentially eligible for Eurosystem collateral purposes?

- A registered form CGN under the NSS will be subject to the responsibility undertaking between the ICSDs and the Central Banks.
- The note will be safekept by an ICSD CSK.
- The registered owner will be a nominee of the ICSD CSK.
- There will be an Issuer-ICSDs Agreement.

4.4 What specific documents are requested by the ICSDs?

The specific documents requested are as follows:

- An Issuer-ICSDs Agreement;
- An Issuer Effectuation Authorisation (see Question 5.2); and
- A CSK election form.
In which circumstances will these documents be requested by the ICSDs?

Issuer-ICSDs Agreement:

- The ICSDs will require an Issuer-ICSDs Agreement for any stand-alone registered form CGN to be held under the NSS or for each new programme or, if the programme allows for multiple issuers, for each issuer under the programme where the programme allows such issuer to issue NGNs or registered form CGNs to be held under the NSS.
- An Issuer-ICSDs Agreement will also be required on a case by case basis for existing programmes where registered form CGNs will be held in the NSS.
- As of 30 June 2010, the existing versions of the Issuer-ICSDs Agreement for stand-alone securities and for programmes applicable to NGNs will be updated to include registered form CGN issuances to be held under the NSS.

Issuer Effectuation Authorisation:

- The ICSDs will require an Issuer Effectuation Authorisation for any stand-alone registered form CGNs to be held under the NSS and for each new programme. If the programme allows for multiple issuers, this will be required for each issuer under the programme where the programme allows such issuer to issue NGNs or registered form CGNs to be held under the NSS. An effectuation instruction will also be required for each draw-down issued under such a programme, as is the case currently for NGNs.
- Issuer Effectuation Authorisations sent before 30 June 2010 for programmes permitting issuance of NGNs and registered notes are valid for registered form CGNs to be held under the NSS. Therefore, in this specific case, there will be no need to send a new Issuer Effectuation Authorisation.
- The existing "Issuer Effectuation Authorisation" template can be used without modification for registered form CGNs to be held under the NSS.
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CSK election form:

• The ICSDs will require a CSK election form for any stand-alone registered form CGN to be held under the NSS or for new programmes where the programme allows such issuer to issue NGNs or registered form CGNs to be held under the NSS.

• CSK election forms sent before 30 June 2010 as standing instructions (that is, for all securities) or for programmes are valid for registered form CGNs to be held under the NSS. Therefore, in these cases, there will be no need to send a new CSK election form.

• Templates for the above-mentioned documents will be available on each ICSD’s web site.

4.6 Will the ICSDs need a legal opinion?

No, because, unlike the NGN, registered form CGNs to be held under the NSS are not issued in a new form of security.

4.7 Could registered form CGNs held under the NSS be exchangeable into definitive certificates?

Yes. Like the CGN and NGN certificates, registered form CGNs held under the NSS structure may be exchangeable into definitive registered certificates if the terms and conditions of the issuance permit this. Once exchanged, they will be subject to eligibility review by the ICSDs. (Please refer to Question 1.2 for definitive certificates and Eurosystem collateral eligibility.)

4.8 Why do the Final Terms refer to the intention for the security to be held in a manner which would allow Eurosystem eligibility?

Under the Eurosystem requirements, registered form CGNs must be physically safekept by one of the ICSDs. It is therefore important that the issue documentation specifies whether Eurosystem eligibility is intended for the security in order for the issuer agent and ICSDs to determine whether the registered form CGN should be deposited under the NSS. If the intention is not indicated, a registered form CGN will be deposited with a CD under the CSS. As a result, the security will not be recognised as Eurosystem eligible collateral even if it meets other Eurosystem eligibility criteria and in the event that it is issued after 30 September 2010.
5. Impact on Issuance, safekeeping, asset servicing of securities

5.1 Who will service registered form CGNs under the NSS?

They will be serviced by a CSP and safekept by an ICSD CSK, acting on behalf of the two ICSDs.

5.2 Which changes are identified on a registered form CGN under the NSS compared to a CGN under the CSS?

The changes are identified as follows:

- The documentation must indicate that the securities are held in a manner that will allow for potential eligibility for Eurosystem collateral purposes.
- Registered form CGNs are to be deposited with an ICSD CSK, not a CD, and will be serviced by a CSP.
- The issuer or its agent will deliver the registered form CGNs physically or electronically. In the latter case, the CSK will effectuate the certificate upon authorisation from the Issuer (Issuer Effectuation Authorisation).
- The registered owner will be a nominee of the ICSD CSK rather than a nominee of the CD.
- The issuer and the ICSDs will need to execute an Issuer-ICSDs Agreement.

5.3 How is the determination made as to which party will act as CSK and as CSP?

The CSP will be appointed by the ICSDs in accordance with the current ICSDs’ mandate allocation guidelines. The existing joint guidelines published for CGN and NGN issuances remain applicable for registered form CGNs to be held under the NSS.

The CSK will be appointed by the ICSDs based on an issuer agent election form (the existing CSK election form).

5.4 Under which nominee name will registered form CGNs held under the NSS be recorded?

Registered form CGNs deposited with an ICSD CSK will be registered under the nominee name of such ICSD CSK.

- If Euroclear acts as CSK, the registered form CGN will be registered in the name of Euroclear nominee.
- If Clearstream acts as CSK, the registered form CGN will be registered in the name of Clearstream nominee.
5.5 Will the issuer agent have to interact with the nominee company to service the security?

No. In order to optimise operational processing, the nominee company will provide a power of attorney to the CSP and to both ICSDs. The CSP will therefore be the main contact point for issuer agents.
6. Impacts on the ICSDs’ customers

6.1 Are the services provided by the ICSDs to their customers holding registered form CGNs under the NSS any different compared to what happens for CGNs under the CSS and NGNs?

Services provided by the ICSDs to customers holding registered form CGNs under the NSS will be identical to the current services for CGNs and NGNs.

6.2 Will ICSD customers be required to make any changes to their systems to accommodate the NSS for registered form CGNs?

ICSD customers will not need to make any changes to their systems to accommodate the NSS.

6.3 Will registered form CGNs under the NSS involve any additional costs for ICSD customers?

There will be no additional costs for ICSD customers.
For further information, please contact the ICSDs at the following telephone numbers:

- Euroclear Bank: +32 2 326 26 04
- Clearstream Banking: +352 243 32636
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