BONDS: BLUEPRINT TO LISTING

MOBILIST
Product Platform

31 DECEMBER 2023

CONTENTS

1. PREAMBLE

Mobilising Institutional Capital Through Listed Product Structures (MOBILIST) is a flagship UK government programme that supports investment solutions that help deliver the Global Goals for Sustainable Development and the climate transition. MOBILIST competitively sources and selects dedicated emerging and frontier market investment products.

Through its research and policy activities, MOBILIST strives to create an enabling environment for the proliferation of new listed products. This Blueprint to Listing report is designed to provide prospective issuers with clear and practical guidance on what is required to structure and list specific product structures.

2. INTRODUCTION

Asset managers, project promoters, and businesses seeking to raise capital for sustainability-themed funds, projects, and businesses in developing countries have historically preferred to do so through the private markets. There are good reasons for this, including the illiquid nature of the underlying assets in question, the under-developed state of public markets in many developing countries, and a general lack of familiarity among major global public market investors. Accordingly, specialist private market investors, especially DFIs and MDBs, have been looked to for capital raising purposes.

At the heart of MOBILIST and its Source, Select, Support (S3) Process is an understanding that public markets are vital to the SDG financing gap.

As part of MOBILIST's mission to stimulate SDG-aligned investment through the utilisation of public listed markets, the programme seeks to proactively make the case for public markets through its research activities and to provide practical educational materials that can close some of the common knowledge gaps and misperceptions around the costs and complexities involved in listing on stock exchanges.

The MOBILIST Blueprint to Listing report is intended as a practical, execution-focused document that provides clear guidance to product promoters who might otherwise be deterred by the perceived costs and complexities of the listing process. It presents specific, up-to-date, and useable information, including step-by-step guides on the necessary stages of completing a new listing.

This fourth chapter of the report focuses on bonds. Bonds as an instrument are foundational to efficient capital markets and are employed by corporates, sovereigns, and local authorities to finance projects and operations. In the context of development finance, many DFIs and MDBs are active in the debt capital markets and utilise their strong sovereign shareholder-linked credit ratings to issue bonds at a low cost of capital to fund their development investment activities. Indeed, in this regard, bond issuance could arguably be viewed as the most effective and prolific tool of private capital mobilisation.

Equally, as more development-aligned businesses and projects across emerging and frontier markets seek to tap the debt capital markets – especially through the issuance of Green, Social and Sustainability (GSS) – more attention should be paid to providing concrete, usable information about what is required to structure such instruments. Greater support and understanding of the specific policy and regulatory environments they must conform to is also needed.

While this Blueprint Chapter focuses on the former, MOBILIST is also active in enabling the policy conversation, for example, through its support for creating the **Manual for the Issuance of Corporate Debt in the Mexican Market**.

In most contexts, bond issuance is best done through public markets where pricing is transparent, and liquidity is available to investors. Given the importance of bonds as an instrument and the growing prominence of GSS bonds in particular, this Chapter of the MOBILIST Blueprint to Listing report intends to support the market by providing a practical guide on the key stakeholders and steps to market.

3. LISTED BONDS

3.1. What are Listed Bonds and why are they Important?

A bond is a financial instrument that represents a debt obligation. Entities like governments, corporations, or other institutions can raise capital by issuing bonds to investors. The bond issuer essentially borrows money from investors in exchange for a promise to repay the principal amount at a specified future date, known as the maturity date. In the interim, the issuer pays periodic interest, known as coupon payments, to the bondholders as compensation for lending their money. The bond's principal, or face value, is the amount the bondholder will receive back at maturity. Bonds are typically traded on the secondary market, where investors can buy and sell them. The price of a bond on the secondary market can fluctuate based on factors such as changes in interest rates, the issuer's creditworthiness, and market demand. Investors may hold bonds until maturity to receive the full principal amount or choose to sell them before maturity, potentially realising capital gains or losses.

The dynamics of a bond encompass both the income generated through coupon payments and the potential for capital appreciation or depreciation based on market conditions, making bonds a versatile tool in investment portfolios.

Bonds are either listed or unlisted, which influences how they are bought and sold. Listed bonds are traded on public exchanges, providing a transparent and organised platform for investors to buy or sell during market hours. The prices of listed bonds are readily available, reflecting real-time market conditions. This listing enhances liquidity, allowing investors to easily enter or exit positions.

In contrast, unlisted bonds (sometimes referred to as private placements) are not traded on public exchanges. Instead, they are transacted directly between the issuer and the investor or through over-the-counter (OTC) platforms. Unlisted bonds lack the same level of price transparency as listed bonds, and their liquidity can be more limited. While listed bonds offer the advantages of liquidity and transparency, unlisted bonds might provide greater flexibility in terms of negotiation and customisation, albeit at the expense of market visibility. The choice between listed and unlisted bonds often depends on the specific needs and preferences of both issuers and investors.

Broadly speaking, wider and larger pools of investment capital are available to listed bonds compared to unlisted bonds. The listing of bonds on public exchanges significantly broadens their accessibility to a diverse range of both institutional and individual investors. Listed bonds can be bought and sold in the secondary market, allowing for liquidity and a continuous flow of capital.

Listing on public exchanges not only facilitates access to a larger investor pool but also enhances the credibility and transparency of the bonds. Institutional investors typically prefer the liquidity and regulatory oversight associated with listed bonds. Additionally, the visibility provided by public exchanges makes it easier for investors to assess and compare different investment opportunities.

3.2. Bonds in Development Finance

Bonds are arguably the most significant private capital mobilisation instruments used in development finance. Many DFIs and MDBs leverage their strong sovereign shareholder-linked credit ratings to issue bonds that are purchased by a wide array of institutional investors at pricings that allow the development organisations to maximise their investment activities and development impact.

DFIs and MDBs are significant debt investors in the markets in which they are active. Their investments are almost exclusively in the form of direct or syndicated loans to businesses or projects, most of which do not issue and list bonds. While there are notable examples of private investors participating in loan syndication programmes, the general trend is for limited mobilisation of private capital in DFI and MDB loan transactions. In large and liquid enough markets and for prospective corporate issuers with sufficient resources and track records, there is a case to be made for development investors to support the creation and issuance of listed bonds that can more effectively and systematically tap the largest pools of private capital.

3.3. Green, Social, and Sustainability (GSS) Bonds

A relatively recent addition to the asset class of bonds is the growing prominence of Green, Social, and Sustainability (GSS) bonds. GSS bonds are specialised financial instruments designed to fund projects with positive environmental and social impacts. GSS issuances are accompanied by commitments to allocate the raised capital toward projects that promote environmental sustainability or social well-being. Funds generated through GSS bond issuance are typically earmarked for initiatives such as renewable energy projects, energy efficiency improvements, affordable housing, healthcare, and other activities that align with sustainable development goals. While this does create a constraint on the use of proceeds for issuers, such instruments do have the potential to attract investors with specific allocation requirements. In fact, observable instances where GSS bonds have priced lower than vanilla equivalents have led to the emergence of the 'greenium' terminology.

Investors who purchase GSS bonds are attracted not only by the potential financial returns but also by the opportunity to contribute to positive societal and environmental outcomes. The performance of GSS bonds is often assessed not just in financial terms but also in the context of the environmental and social impact metrics associated with the funded projects, creating a unique intersection between finance and responsible investing with increasingly sophisticated measurement and reporting infrastructure. The growing prominence of GSS bonds reflects a broader shift in the financial landscape toward sustainability and ethical investing. This is observable both at the DFI and MDB funding level, where most major institutions are issuing them and at the corporate level, where MOBILIST partner stock exchanges such as BIVA in Mexico are actively working with cohorts of medium-sized enterprises to equip them to list GSS bonds on their debt markets.

4. KEY STAKEHOLDERS

In the market for bond issuance and trading, various stakeholders play distinct yet interconnected roles. The issuer, whether a government, corporation, or other entity, seeks capital through bond issuance and determines the bond's terms. Bond underwriters or investment banks assist in structuring and marketing the bond. Investors, or 'bondholders', provide the capital and expect returns in the form of interest payments and principal repayment. Regulatory authorities and credit rating agencies ensure transparency, fairness, and creditworthiness in the market. In the context of listed bonds; stock exchanges, clearinghouses, and depositories become essential by overseeing the listing process, facilitating settlement, and enhancing liquidity. Market makers contribute by providing buy and sell quotes to ensure a fluid secondary market.

Below is an inventory of the likely stakeholders necessary to structure a bond issuance and details on their roles and responsibilities:

4.1. Issuer

The issuer is the sovereign, corporate or project entity seeking to raise capital on the debt market. It plays a central role in initiating and coordinating the process.

- Roles and responsibilities:
    - Defines the purpose of the bond issuance and determines the use of proceeds. This includes deciding on whether to structure a GSS bond.
    - Sets the terms of the bond, including interest rates, maturity, and potential features like call or put options.
    - Ensures adherence to regulatory requirements and provides detailed disclosure documents, often in the form of a prospectus.
- Requirements:
    - Subject to scrutiny regarding creditworthiness and financial stability as investors assess its ability to meet debt obligations.
    - Engages in rigorous due diligence processes to provide comprehensive financial and potentially ESG/impact disclosures.
- Remuneration:
    - Compensated through the repayment of the principal amount and the payment of periodic interest from the capital raised.

4.2. Bond Underwriter or Investment Bank

Bond underwriters or investment banks collaborate closely with issuers, facilitating the oftentimes complex process of structuring, pricing, and marketing bonds to attract potential investors.

- Roles and responsibilities:
  - Assists in structuring the bond, considering factors such as interest rates, market conditions, and investor appetite.
  - Determines the appropriate pricing for the bonds, often balancing the issuer's need for cost-effective financing with attractive yields for investors.
  - Actively markets the bond to a diverse range of potential investors through roadshows, presentations, and other promotional efforts.
- Requirements:
  - Deep knowledge of the investor universe and ability to market securities.
  - Due diligence capabilities to understand market conditions and investor sentiment.
  - Ability to conduct in-depth analyses of the issuer's creditworthiness, evaluating financial health and stability.
- Remuneration:
  - Earns fees or commissions based on the successful underwriting of the bond issuance.

4.3. Bondholders (Investors)

Bondholders, or investors, are critical to the bond market. They provide essential capital to issuers in exchange for bonds and expect returns according to agreed-upon terms.

- Roles and responsibilities:
  - Supply capital to the issuer, effectively becoming a creditor in exchange for the bond.
  - Assess credit quality and evaluate risk-return profile.
  - Monitor asset performance.
  - Receive periodic interest payments from the issuer, typically semi-annually or annually.
  - Expect the return of the principal amount at the bond's maturity date.
- Requirements:
  - Sufficient available capital and appropriate risk/return appetite.
  - Ability to assess the issuer's credit risk, evaluate financial stability, and review the credit rating assigned to the bond.
  - Ability to consider specific investment criteria, such as the alignment of the bond with environmental, social, and governance (ESG) factors.
- Remuneration:
  - Compensated through regular interest payments and potential capital gains or losses if the bond is traded on the secondary market.

4.4. Regulatory Authorities

Regulatory authorities serve as guardians of fair and transparent markets, overseeing the bond issuance process and ensuring compliance with typically stringent regulatory standards.

- Roles and responsibilities:
    - Oversee and regulate the bond issuance process, establishing and enforcing rules and standards.
    - Safeguard the interests of investors by ensuring issuers adhere to disclosure requirements and regulatory rules and guidelines.
- Requirements:
- Ability to monitor the issuer's compliance with regulatory standards and review necessary documentation submitted by the issuer.
- Capacity to intervene in cases where the interests of investors are at risk or market integrity is compromised.
- Remuneration:
    - Funded through fees or assessments levied on the financial industry rather than directly from issuers or investors.

4.5. Ratings Agencies

Rating agencies act as independent evaluators, assigning credit ratings to bonds to provide investors with insights into the creditworthiness of issuers. These ratings help investors in their decision-making process and determine the pricing and marketability of the securities.

- Roles and responsibilities:
    - Assess the issuer's creditworthiness through a comprehensive evaluation of financial health, stability, and risk factors.
    - Assign a credit rating to the bond, indicating the level of credit risk associated with the investment.
    - Conduct ongoing monitoring and updates of credit ratings based on changes in the issuer's circumstances.
- Requirements:
    - A trusted brand, seen as an expert in evaluating credit risk and analysing financial data.
    - Ability to analyse industry-specific factors and economic conditions that may impact the issuer's ability to meet debt obligations.
    - Full compliance with regulatory requirements.
- Remuneration:
    - Fees paid by investors or issuers for the rating service, ensuring independence and objectivity in the rating process.

4.6. Stock Exchanges

Stock exchanges act as pivotal platforms for the listing and trading of bonds, ensuring compliance with listing requirements and fostering and promoting transparent and liquid markets.

- Roles and responsibilities:
  - Provide the platform for listing and trading bonds, ensuring a regulated and transparent environment.
  - Establish and enforce listing requirements to maintain the quality and integrity of listed securities.
  - Monitor ongoing compliance with disclosure obligations and regulatory standards, including requirements relating to ESG and impact criteria.
- Requirements:
  - Provide a regulated and transparent environment for the listing and trading of bonds.
  - Ability to establish and enforce listing requirements to maintain the quality and integrity of listed securities.
- Remuneration:
  - Charge listing fees to issuers for the privilege of being listed on the exchange.
  - Generate revenue through trading fees for transactions conducted on the exchange.

5. STEPS TO MARKET

Any institution considering structuring a bond issuance for the first time should be aware of the established set of steps that must be followed. In the context of a bond listing on a public stock exchange, and with reference to the particularities of GSS bonds, this section outlines these steps in simple, practical terms referencing the involvement of the various stakeholders at each point.

5.1. Step 1 – Preparation and Planning

- Purpose:
  - This foundational step aims to set the stage for a successful bond listing. Defining clear objectives, analysing market conditions, and ensuring regulatory compliance lay the groundwork for a strategic and well-timed bond issuance.
- Who's Involved:
  - The issuer's leadership takes charge, working closely with legal and financial advisors, as well as underwriters or investment banks.
    - **Issuer's Leadership:** Defines bond issuance objectives and strategic direction.
    - **Legal and Financial Advisors:** Provide legal and financial expertise, ensuring compliance and strategic planning.

- **Underwriters or Investment Banks:** Contribute financial insights and market analysis and assist in strategic planning for the bond issuance.

- How it Works:
  - **Define the Objective:**
    - Issuer's leadership conducts internal discussions to define the purpose of bond issuance. Whether or not to structure a GSS bond must be determined at this point.
    - Aligns goals with the institution or company's strategic objectives, identifying projects or financial needs.
  - **Market Analysis:**
    - Financial analysts collaborate to assess current market conditions and interest rate trends.
    - Utilise historical data and economic indicators to identify optimal issuance timing, potentially aligning with heightened investor interest in green and sustainable initiatives.
  - **Regulatory Compliance:**
    - Legal advisors lead a comprehensive review of regulatory requirements.
    - Specific focus on GSS bond criteria and disclosure standards may be necessary.

5.2. Step 2 – Document Preparation

- Purpose:
  - The meticulous creation of comprehensive documentation serves to provide investors with deep insights. The prospectus, financial statements, and legal documents ensure transparency, credibility, and informed decision-making during the listing process.
- Who's Involved:
  - Legal and financial advisors, underwriters or investment banks collaborate closely to prepare comprehensive documentation.
    - **Legal and Financial Advisors:** Draft legal documents, ensure compliance, and provide financial disclosure.
    - **Underwriters or Investment Banks:** Contribute financial insights and market analysis and assist in creating comprehensive documentation.
- How it Works:
  - **Prospectus Development:**
    - Cross-functional teams, including legal, finance, ESG, and communications experts, work on drafting the prospectus.
    - Emphasise key terms, risks, and the overall value proposition, potentially with a particular focus on the environmental and social impact of the bond.
  - **Financial Disclosures:**
    - Collaboration between auditors and financial teams ensures the preparation of transparent, accurate, and consistent audited financial statements, with an emphasis on sustainability metrics.

- **Legal Documentation:**
  - Legal teams work closely to draft legal documents, including the indenture outlining bond terms.
  - Pay meticulous attention to legal nuances and potential investor protections.
  - Specific GSS bond requirements and impact reporting may be codified into the documentation.

5.3. Step 3 – Credit Rating Assessment

- Purpose:
  - Seeking an independent credit rating enhances the marketability of the bond, attracting a broader investor base. This assessment provides investors with a reliable measure of the issuer's creditworthiness, strengthening market confidence.
- Who's Involved:
  - Credit rating agencies, the issuer, and underwriters or investment banks.
    - **Credit Rating Agencies:** Analyse financial health, industry factors, and economic conditions, assigning a credit rating.
    - **Issuer:** Shares comprehensive financial information with credit rating agencies.
    - **Underwriters or Investment Banks:** Facilitate communication between the issuer and credit rating agencies, providing insights into financial stability.
- How it Works:
  - **Submission of Information:**
    - Financial teams compile a comprehensive dataset, including financial statements and management discussions, emphasising sustainability metrics.
    - Submit this information to credit rating agencies, highlighting the issuer's commitment to environmental, social, and sustainable initiatives.
  - **Credit Analysis:**
    - Interact with credit rating agencies during their analysis, providing additional information as needed.
  - **Credit Rating Assignment:**
    - Credit rating agencies assign a credit rating based on factors like financial stability, industry conditions, and adherence to GSS standards.

5.4. Step 4 – Underwriting and Pricing

- Purpose:
  - Secure commitments from underwriters ensures a smooth bond issuance process. Negotiating an optimal pricing strategy balances the issuer's cost-effective financing needs with attractive yields for investors, fostering successful market entry.
- Who's Involved:
  - Underwriters or investment banks take a leading role, working closely with the issuer.

      - **Underwriters or Investment Banks:** Negotiate underwriting agreements, determine pricing strategy, and actively market the bond.
      - **Issuer:** Collaborates with underwriters, providing insights into financial needs and strategic goals.

- How it Works:
   - **Underwriting Agreement:**
      - Issuer's leadership engages in negotiations with underwriters, defining terms such as commitment, fees, and potential conditions and ensuring alignment with GSS principles.
   - **Pricing Strategy:**
      - Collaboration between underwriters and the issuer determines optimal pricing, considering financing needs, market conditions, and the perceived environmental and social impact in the case of a GSS bond.
   - **Marketing Strategy:**
      - Marketing teams, in collaboration with underwriters, develop a comprehensive plan aligned with the pricing strategy, covering roadshows and media outreach, emphasising the positive ESG and impact outcomes attached to the use of proceeds.

5.5. Step 5 – Regulatory Approval and Listing Application

- Purpose:
   - Obtaining regulatory approval and submitting the listing application signifies adherence to stringent standards. This step ensures compliance with regulatory requirements, builds trust among investors, and positions the bond for a successful market debuts.
- Who's Involved:
   - Regulatory authorities, the stock exchange, and the issuer actively participate in this step.
      - **Regulatory Authorities:** Oversee the regulatory approval process and ensure compliance.
      - **Stock Exchange:** Reviews and approves the listing application, enforcing listing standards.
      - **Issuer:** Submits necessary documentation, ensuring alignment with regulatory standards.
- How it Works:
   - **Regulatory Approval:**
      - Legal teams prepare a meticulous submission to regulatory authorities, addressing inquiries promptly.
      - Specific emphasis on the use of proceeds must be outlined when issuing a GSS bond.
   - **Stock Exchange Application:**
      - Issuer's representatives assemble and submit the listing application, collaborating with exchange representatives.

- **Review Process:**
  - Active participation from the issuer's team in the regulatory and stock exchange review process.
  - All concerns, including GSS-specific ones, should be addressed thoroughly and promptly.

5.6. Step 6 – Marketing and Roadshows

- Purpose:
  - Marketing initiatives and roadshows serve to generate interest and attract potential investors. Targeting specific investor profiles, engaging in roadshows, and developing compelling marketing materials collectively build investor confidence and drive successful market participation.
- Who's Involved:
  - The marketing team takes the lead, supported by underwriters or investment banks and the issuer.
    - **Marketing Team:** Develops strategies and materials and executes roadshows to attract potential investors.
    - **Underwriters or Investment Banks:** Assist in roadshows, providing market insights and investor engagement.
    - **Issuer:** Participates in roadshows, presenting the bond offering to potential investors.
- How it Works:
  - **Investor Targeting:**
    - Marketing teams draw on their expertise to profile investor groups to identify and target specific groups.
    - Tailor marketing messages to address the preferences and priorities of institutional and retail investors, emphasising the positive environmental and social impact in the case of a GSS bond issuance.
  - **Roadshows:**
    - Marketing teams plan a comprehensive schedule covering key financial centres. These typically focus on home markets, but depending on the terms of the issuance and the collective estimation of global appetite, global financial centres can and should be marketed to.
    - Issuer's representatives actively engage in face-to-face meetings, presentations, and Q&A sessions to build relationships, focusing on GSS-related discussions where appropriate.
  - **Marketing Materials:**
    - Marketing teams, in collaboration with communication experts, develop visually appealing and informative materials. They ensure consistency in messaging, with a special emphasis on GSS principles.

5.7. Step 7 – Pricing and Allocation

- Purpose:
  - The final pricing and allocation phase is crucial for determining the bond's market value and ensuring fair distribution. Investor demand informs the final pricing, and a careful allocation process optimises the bond's market debut.
- Who's Involved:
  - Underwriters or investment banks and the issuer collaborate closely during the final pricing and allocation phase.
    - **Underwriters or Investment Banks:** Determine final pricing and allocate bonds based on investor demand.
    - **Issuer:** Collaborates in the pricing strategy, ensuring alignment with financial goals.
- How it Works:
  - **Final Pricing:**
    - Utilise real-time market data and investor feedback, with underwriters actively participating, to determine the final bond price.
    - Consider overall market conditions and competitor offerings during the pricing strategy, ensuring alignment with GSS-related goals.
  - **Allocation:**
    - Collaboration between underwriters and the issuer to allocate bonds based on investor demand.
    - Prioritise existing relationships and strategically distribute bonds for a balanced allocation, considering the GSS impact.
  - **Optimising the Process:**
    - Continuous monitoring of market conditions and investor feedback by both underwriters and the issuer, with specific attention to GSS-related considerations.
    - Make data-driven adjustments as needed to optimise the pricing and allocation process, ensuring alignment with GSS objectives.

MOBILIST

mobilist@thepalladiumgroup.com

mobilistglobal.com

Palladium
MAKE IT POSSIBLE

EIGHTEEN EAST