

Role of Intermediaries in facilitating long-term financing through capital markets

IOSCO – Growth and Emerging Markets Committee

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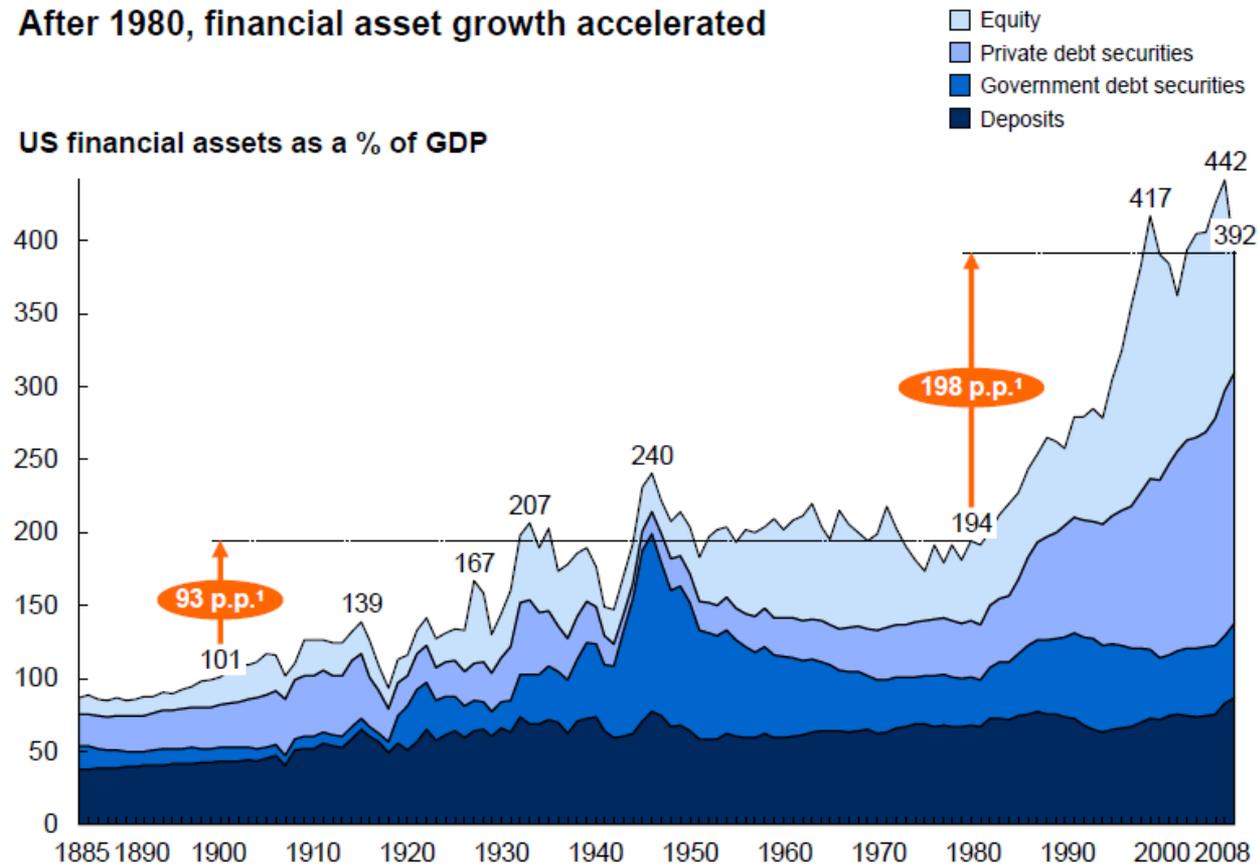
My topics

- The Global perspective – trends and observations
- The Regulatory and Legal Environment
- Listing considerations

Huge growth in US financial assets since 1980

After 1980, financial asset growth accelerated

US financial assets as a % of GDP

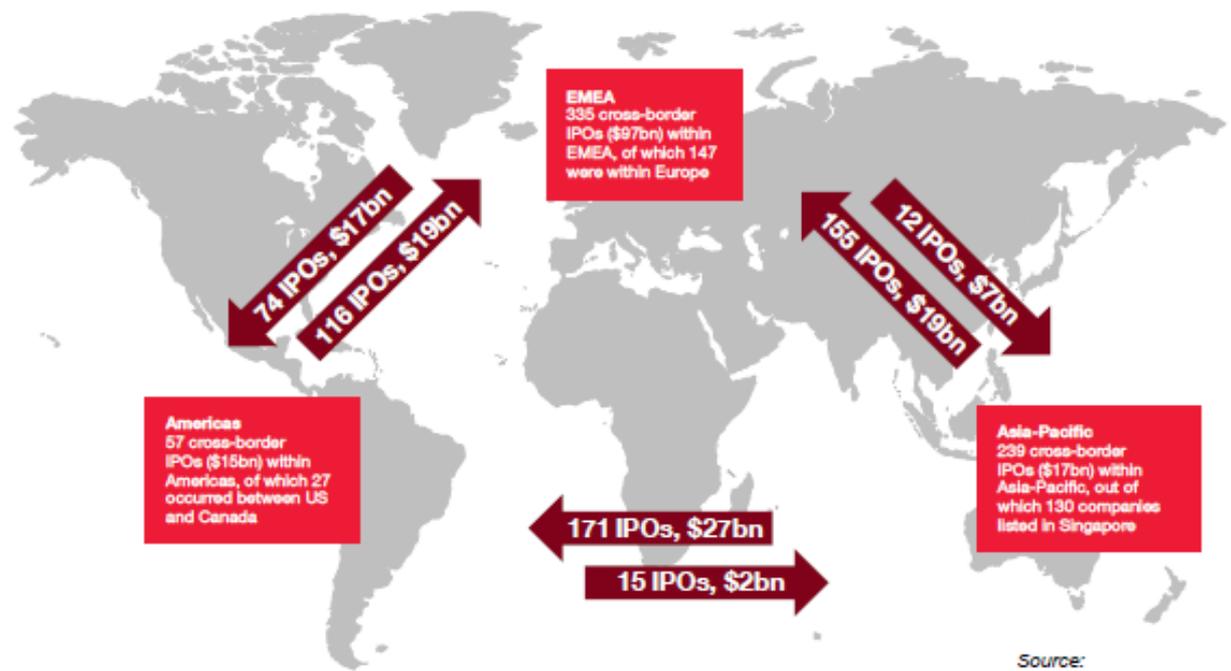


¹ Percentage points of GDP.

SOURCE: Federal Reserve; National Bureau of Economic Research; Robert Shiller; McKinsey Global Institute analysis

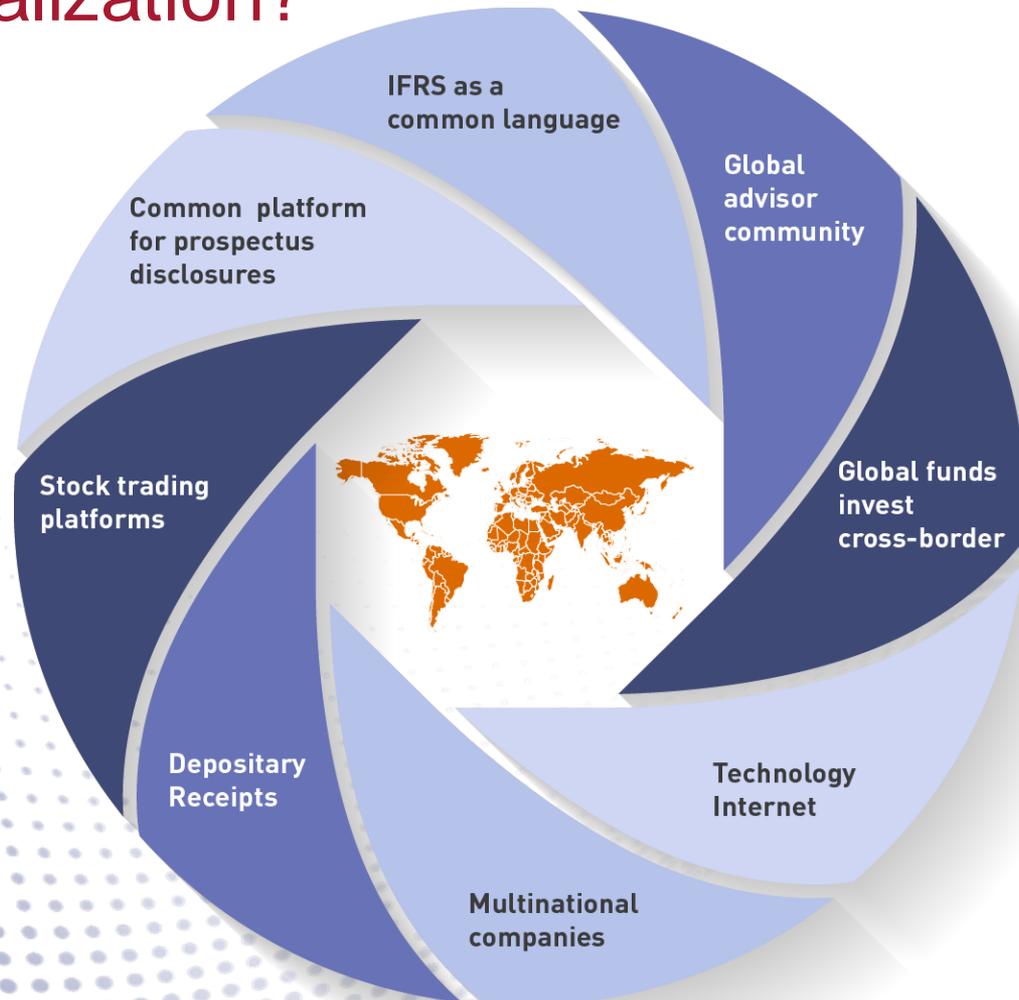
Markets have become global

cross-border deals account for more than 70% of funds raised on the top four exchanges - HK, LSE, NYSE and NASDAQ



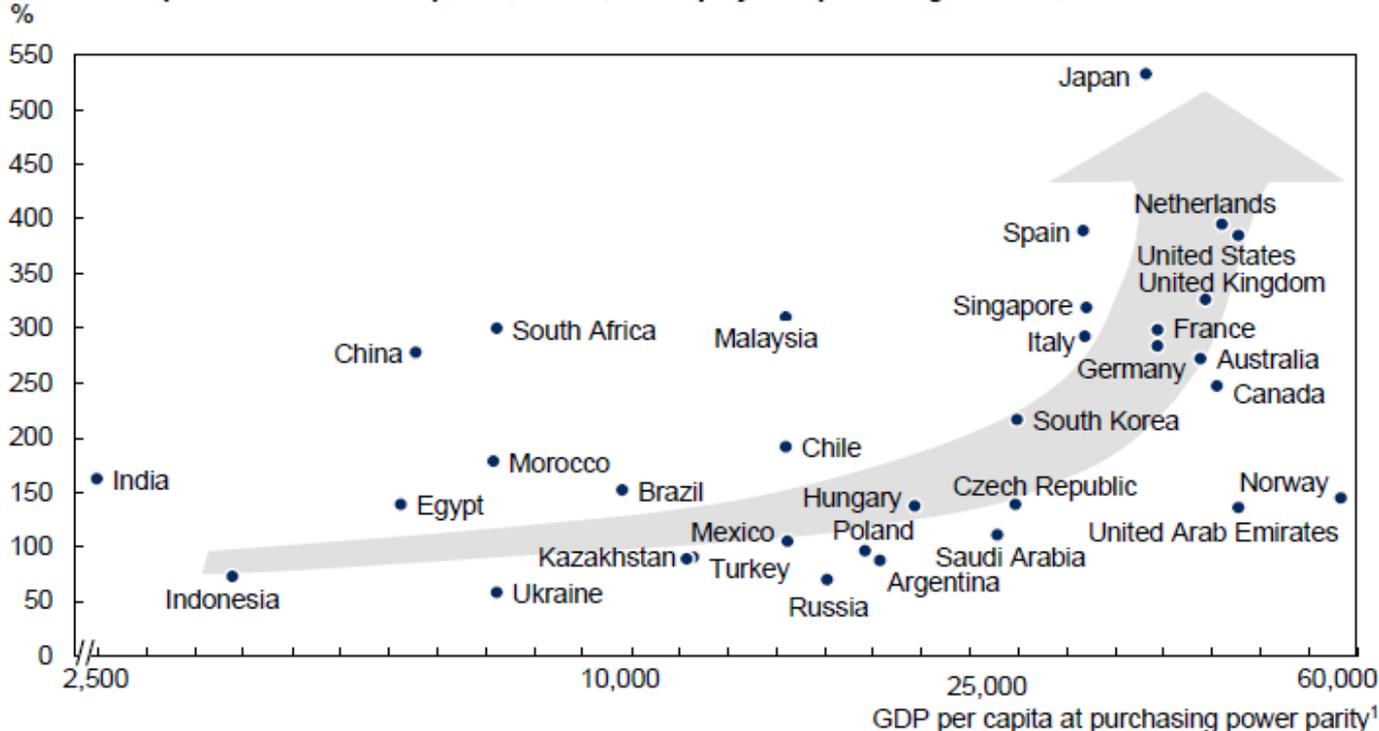
Source:
PwC analysis based on
Dealogic data

What's behind the increasing Internationalization?



EMs play an increasingly important role – but with significant room to grow financial depth

Financial depth: Value of bank deposits, bonds, and equity as a percentage of GDP, 2008



Emerging markets

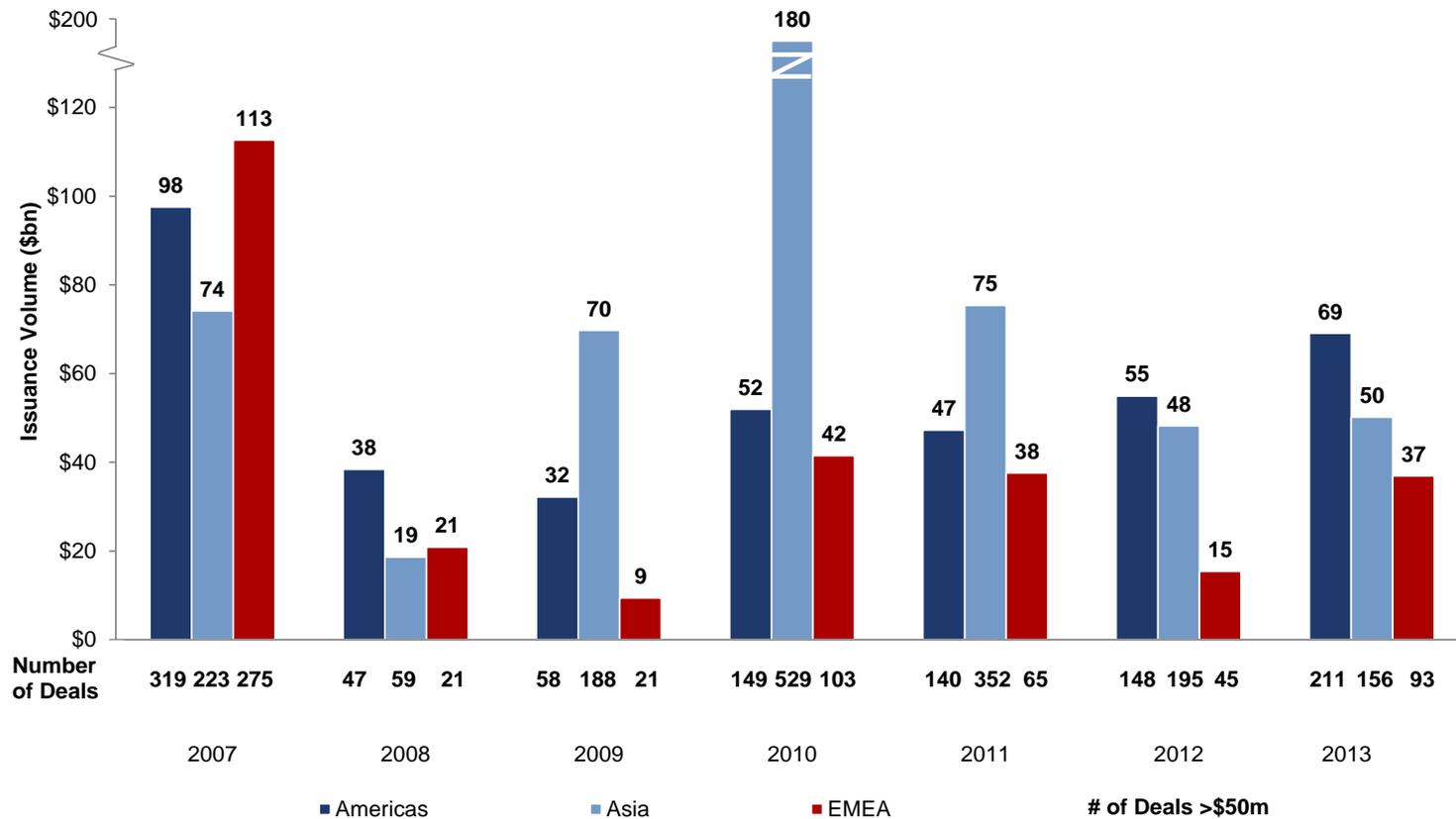
Mature markets

¹ Log scale.

SOURCE: McKinsey Global Institute Global Financial Assets database

2013 IPO Activity

IPO activity back at highest level since 2007



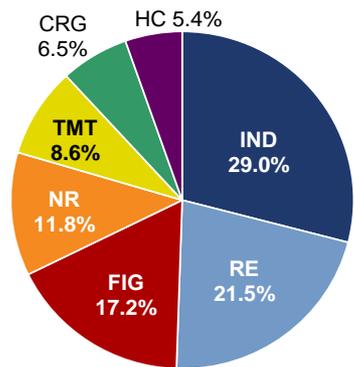
Source: Goldman Sachs

2013 EMEA Key Transactions >\$50m

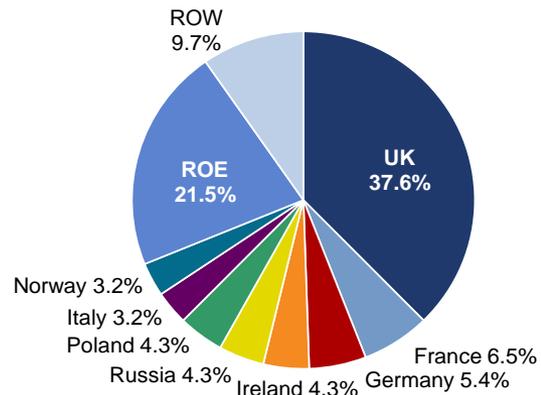


IPO Volumes by Sector and Geography

By Industry



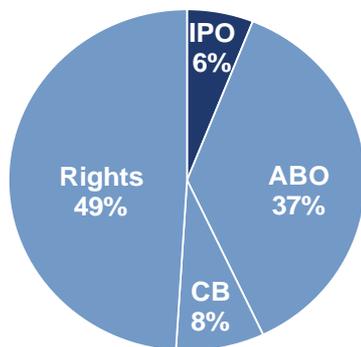
By Region



Source: Goldman Sachs

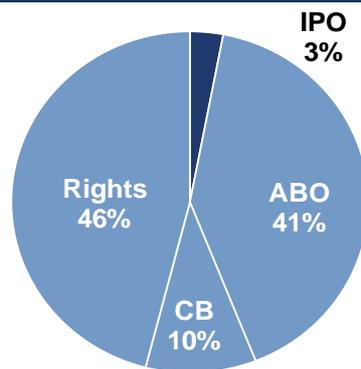
Breakdown of total ECM activity

2008



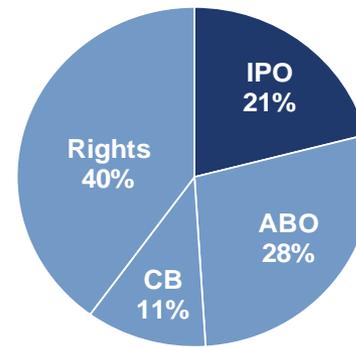
-Total = \$303bn

2009



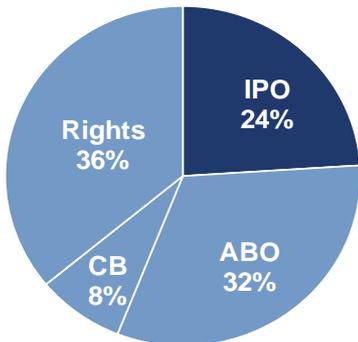
-Total = \$351bn

2010



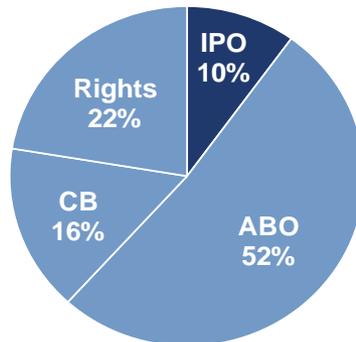
-Total = \$184bn

2011



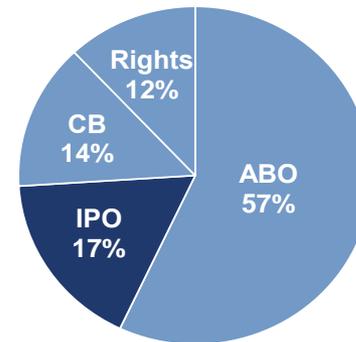
-Total = \$145bn

2012



-Total = \$141bn

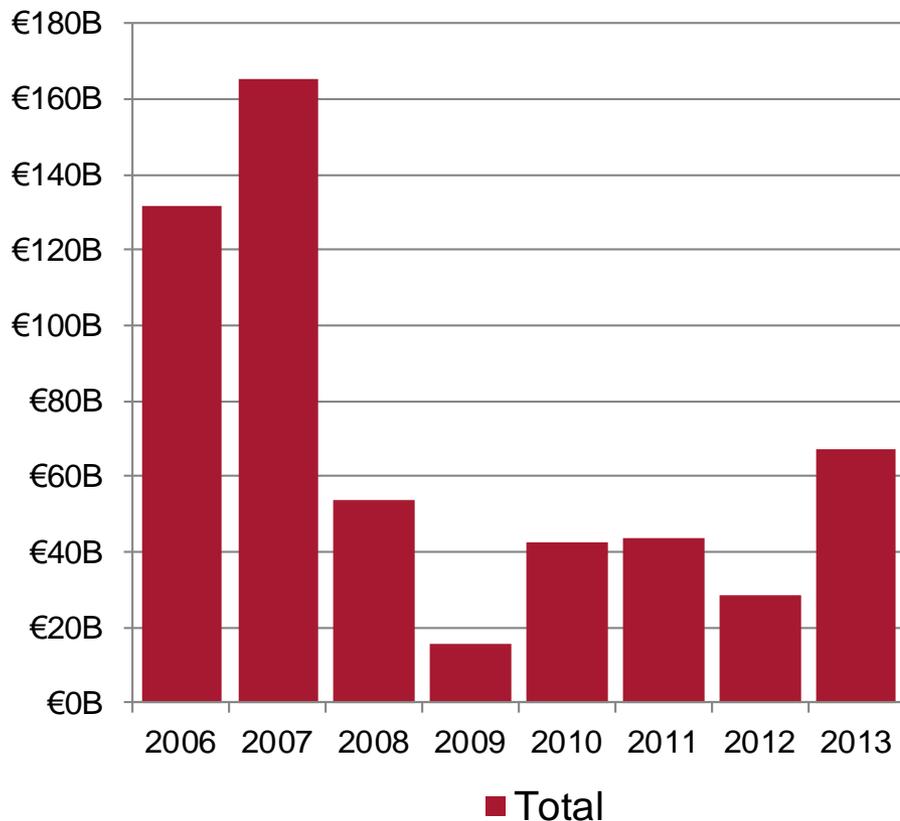
2013



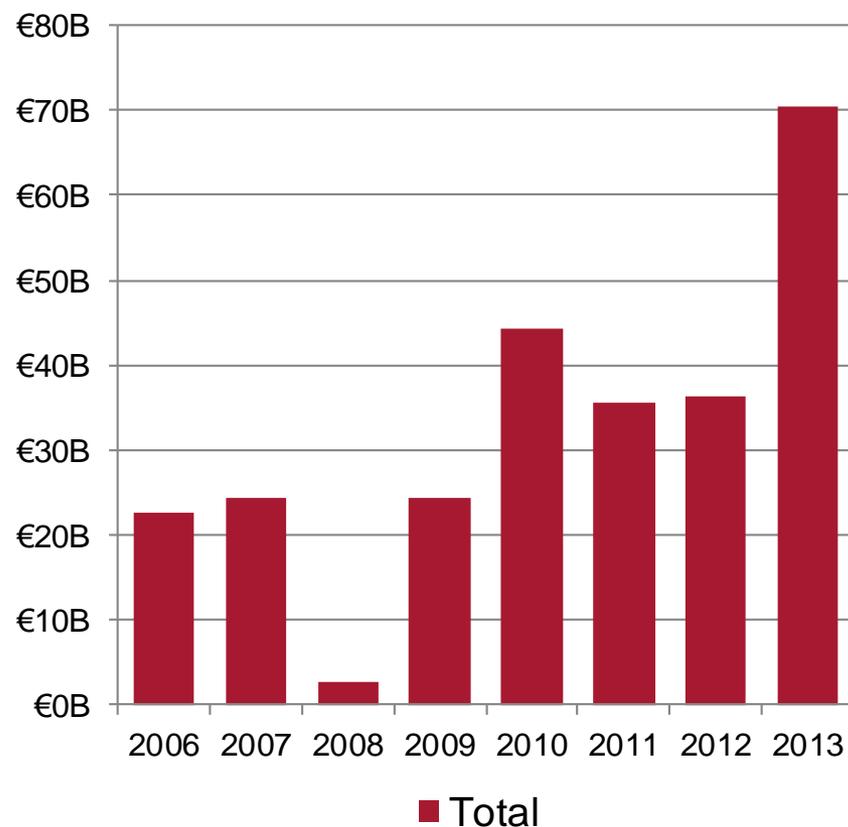
-Total = \$224bn

Source: Goldman Sachs

European Senior Loan Volume

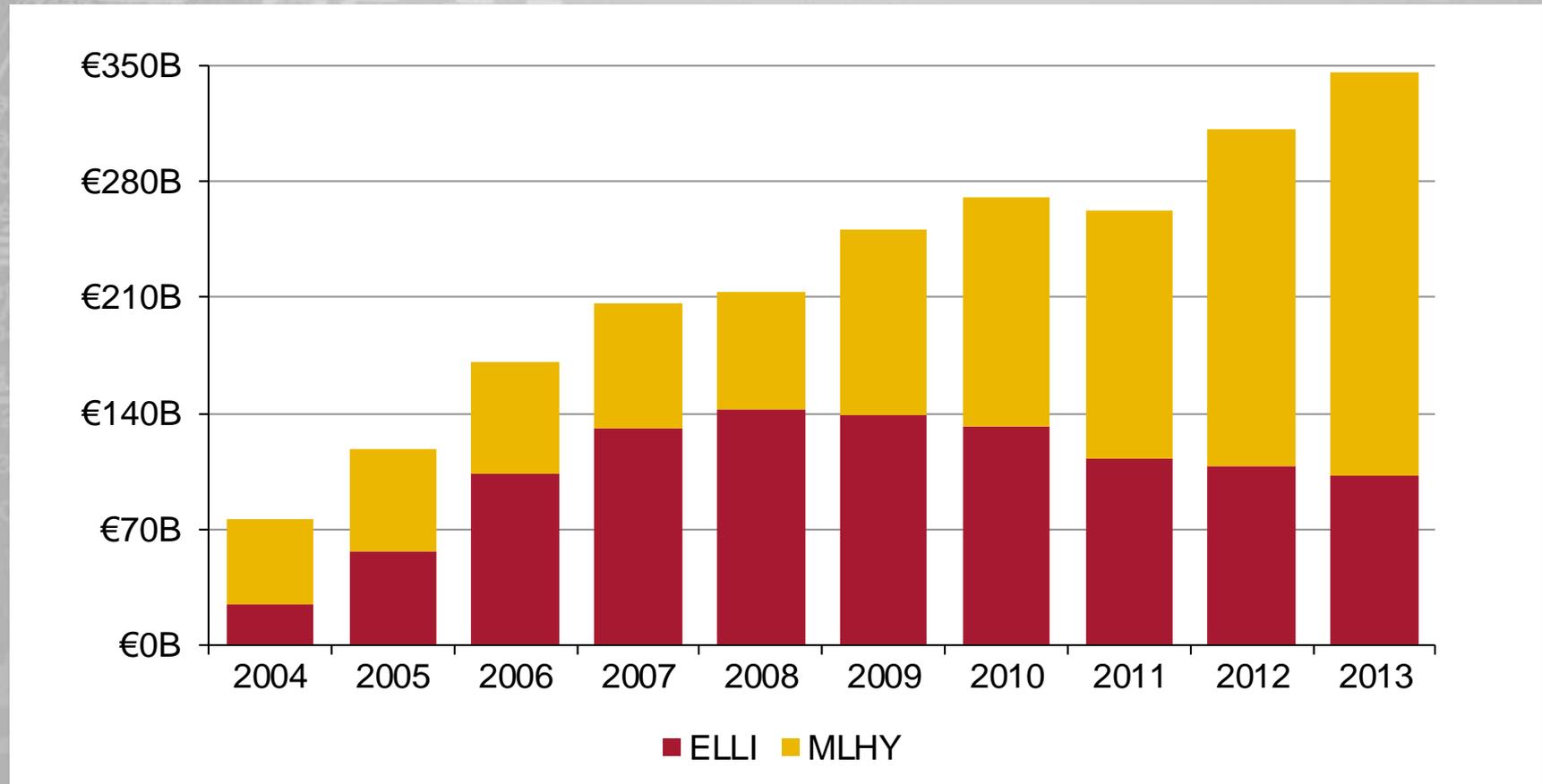


European High Yield Bond Volume



Note: HY volume excludes PIK instruments & short-term bonds; reflects corporate bonds only. In case of a global issue, the portion allocated to European HY investors is counted (if unknown, the entire global issue is counted). In the case of multi-tranche bonds issued within the same transaction, each tranche is counted separately.

Market Size: ELLI vs. BofA MLHY



Source: S&P European Leveraged Loan Index (ELLI); Bank of America Merrill Lynch European High-Yield Bond Index



2.81%	11,313,841	0.66
0.48%	1,567,992	0.31
0.25%	1,703,278	0.34
0.34%	2,067,264	0.41
61.43%	33,739,070	6.47
0.05%	19,134,069	3.64
0.1%	2,985,063	0.56
0.21%	21,759,099	4.16
0.20%	1,971,380	0.37
0.22%	4,555,011	0.85
4.06%	3,492,343	0.66
6.37%	12,030,208	2.26
6.23%	7,000,000	1.31
9.01%	5,387,334	1.01
0.01%	2,231,182	0.42
0.03%	3,479,536	0.65
0.53%	2,739,179	0.51
0.20%	1,471,611	0.28
0.49%	880,575	0.16
0.04%	940,803	0.17
0.09%	42,426,886	8.01
0.04%	1,500,534	0.28
0.38%	2,257,357	0.42
0.12%	25,213,565	4.73
0.33%	3,411,009	0.63
0.03%	12,477,834	2.33
0.10%	821,410	0.15
0.04%	1,777,595	0.33
0.17%	3,217,215	0.6
0.85%	1,951,503	0.36
1.87%	3,749,026	0.7
0.73%	14,802,064	2.77
3.64%	14,802,064	2.77
0.36%	47,007	0.0088

1.2%
1.0%
0.7%
0.1%
0.7%
0.3%
0.7%
0.1%
0.5%
0.6%
0.2%
0.6%
1.2%

123	6595	2852
566	6454	2458
594	6458	3917
222	6458	2458
594	6934	3252
254	6568	3210
248	6984	2400
589	6998	4000
264	6945	3000
478	8999	4000
245	6523	3000
154	6930	3000
254	6200	3000
485	6000	3000



The Regulatory Landscape



A lot to comply with . . . for intermediaries



- Basel III /EU: Capital Req'ts Directive IV
- Mandated disposals of non-core assets
- Sanctions – EU, OFAC, Other
- UK: Bribery Act; US: FCPA
- US: Dodd-Frank
- US: JOBS Act
- US: FATCA
- EU: European Market Infrastructure Regulation
- EU: Solvency II
- EU: MIFID II
- EU: MAD/MAR
- EU: Alternative Investment Fund Managers Dir.

A lot to comply with . . . for issuers



Securities laws

- US: federal and state
- EU: Prospectus Directive Regulation
- EU: National legislation and Interpretations
- Listing rules of the Exchanges
- Corporate laws

Ongoing obligations

- Corporate governance
- Regular public disclosures (EU Transparency Directive; 1934 Exchange Act in US)
- Rules against Market Abuse – MAD (EU), Rule 10b-5 (US)
- Takeover Directive (EU); Williams Act (US)

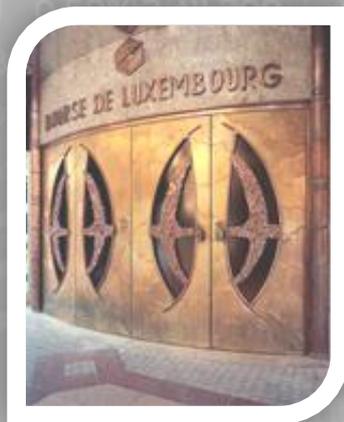
CAPITAL MARKETS DOWNSIDES

- Onerous public disclosures – both at time of offering and ongoing
- Longer process – 3 to 6 months or more
- Market windows that open and shut
- Cost
- Liability
- Less control of the company; corporate governance changes
- Fear of the unknown

UPSIDE

- Liquidity
- Public profile and ongoing analyst following
- Size of transaction
- Quality of investors
- Better price/interest/terms

What is the relevant market?



HOME MARKETS LEGAL ENVIRO.

- Rule of Law generally
- Adequate and clear rules from all relevant regulators
- Likelihood of expropriation
- Insolvency regime – debtor or creditor friendly? Self-help permissible? Security enforceable?
- Netting – especially for hedging purposes
- Tax – Withholding, Capital Gains, Stamp Duty
- Currency controls, Capital Controls, BEE

TARGET MARKET

- Tax/Accounting/Reporting/Disclosure
- Regulator – consistent, clear, communicative
- M&A regime – Takeover Code, Poison Pills
- Ease of Follow-Ons – pre-emption levels, time periods
- Corporate Governance – SOX, Board Structures, Minority Protections
- Listing req'ts - Free float
- Transparency/Enforcement – esp insider trading/manipulation

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