



Reform of the negotiable debt securities market (TCN)

May 2016

Market background

The negotiable debt securities market was created in 1985 for the benefit of all economic players. It is undergoing modernisation following several months of consultations with the Paris financial marketplace. Under the aegis of the Paris Marketplace 2020 Committee, led jointly by the Directorate General of the Treasury and Paris Europlace, the Banque de France has managed this modernisation, working in conjunction with the French bank treasurers association (ACI France - AFTB), a large number of financial industry associations in Paris (AFG, AFTE, AF2I, AFTI, AMAFI, FBF, etc.), market infrastructures (Euroclear, etc.), market participants, law firms and in liaison with rating agencies, the Paris Chamber of Commerce and Industry and regulatory authorities. This approach has made it possible to give due consideration to the interests of all of the stakeholders, including issuers, investors and dealers.

The authorities would like to acknowledge the commitment of all of those involved in the work. Financing for the real economy is a major issue for growth, and short-term financing is critical for corporate and financial institutions.

This market is the second largest commercial-paper market in Europe and the leading market in the euro area. It provides competitive and diversified financing opportunities, in euro and other currencies, in the form of commercial paper and medium term notes. It encompasses a vast ecosystem of investors, especially money market funds, financial and non-financial issuers, arrangers and issuing and paying agents. It has robust post-market infrastructures and its structures, operating rules and market data feature a high degree of transparency. The Banque de France ensures that issuers comply with issuance rules.

The market is important because it promotes diversification of short-term financing sources. It is also a direct monetary policy transmission channel. Finally, from a financial stability standpoint, the market proved the validity of its model and its resilience under stress during the financial crisis.

The reform

Against the backdrop of changing financing methods for economic agents and an evolving regulatory environment, the authorities reform the legal framework of the commercial paper and-medium-term-note market.

The reform aims to open the market up to a larger number of issuers from France and other countries, as well as broadening its investor base. The market could also be opened up to mid-sized enterprises, which account for a major share of growth and jobs and are bound to make greater use of market financing. In keeping with the Capital Market Union project launched last year by the European Commission, the reform aims to improve allocation of resources and ensure greater diversification of financing. It provides new classes of assets, creating solutions for both investors and borrowers through access to broader bases of investors and issuers across different countries. It also meets the needs of economic players without jeopardising the

market's transparency, accessibility or competitiveness. Amounts outstanding on the market are bound to vary according to the players' needs and business cycles.

The reform is enacted by [Decree](#) n° 2016-707 of 05/30/2016 and an [Order](#) of 05/30/2016 issued subsequent to the opinion of the European Central Bank of 30 March 2016. While the reform does not change the legal nature of the debt instruments, market functioning and supervision, or collateral eligibility rules for Eurosystem refinancing, it does:

- 1) Merge negotiable debt paper with maturities of up to one year (former certificates of deposit issued by credit institutions and commercial paper issued by non-financial corporations) into a new category called "*titres négociables à court terme*" in the **financial and monetary code** ;
- 2) Give this paper a new trade name: "*Negotiable European Commercial Paper*" (NEU CP, pronounced "new CP") chosen by the marketplace;
- 3) Align the legal term for securities with maturities of more than one year: "*titres négociables à moyen terme*" (formerly, "bons à moyen terme négociables") in the financial and monetary code ;
- 4) Make it possible to draft the information memorandum in a language commonly used in financial matters, other than French, with no requirement to provide a summary in French;
- 5) Open the market up to more international issuers with broader acceptance of the local accounting standards of countries in the European Economic Area, and of accounting and auditing standards that the European Commission recognises as equivalent to European standards in the case of third-country issuers;
- 6) Provide efficient post-market infrastructures that enable dealers to request transaction identification codes called ISIN codes (new **eNEU CP** tool) that are then generated in real time. This system, backed up by settlement in central-bank money, enhances the efficiency and legal certainty of transactions;
- 7) Open up the list of credit rating agencies accepted for market access to all of the agencies registered with the European Securities and Markets Authority (ESMA), subject to certain requirements (methodology, 3 years of historical statistical data);
- 8) Simplify the regulatory texts, with one Order, instead of four previously.

A transitional period will give issuers the time they need for the annual update of their financial information memoranda. Further information can be found on the Banque de France website.

Reasons for the reform and the new commercial name

The purpose of the reform is to modernise the existing market and bring it into line with international standards, while maintaining the market's transparency and the supervision of issuance requirements by the Banque de France, in addition to the role of the issuing and paying agents that create the securities. The marketplace wanted a more explicit name for international use (Negotiable European Commercial Paper). The new name conveys the nature of the debt instrument, its maturity and the involvement of European players.

This commercial name does not affect the legal nature of the securities, which are still negotiable debt securities.

Attraction of the market for issuers and investors

The market provides competitive financing terms and liquidity, and is flexible and simple to use (choice of maturities, provision of funds, drafting of the financial information memoranda, etc.)

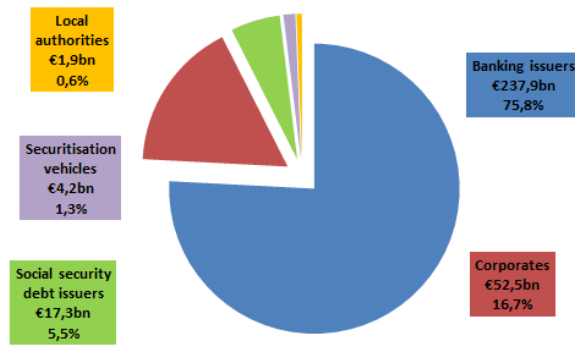
It provides financing and investment instruments with access to a large base of domestic and international investors and issuers that has the potential to grow even larger. The reform further increases market liquidity and depth by merging the types of short-term paper.

Issuers and investors both appreciate its transparency. The Banque de France website disseminates periodic statistics on the main market aggregates by issuer categories, in addition to the information memoranda of the different programmes. These statistics include average yields at issue for each broad category of issuers and rating, thereby providing points of comparison for the market. This information is then compiled by the European Central Bank for all of the securities covered by the Short Term European Paper label promoted by the European Money Markets Institute and the Financial Markets Association (ACI) with a view to convergence of short-term paper market standards and practices.

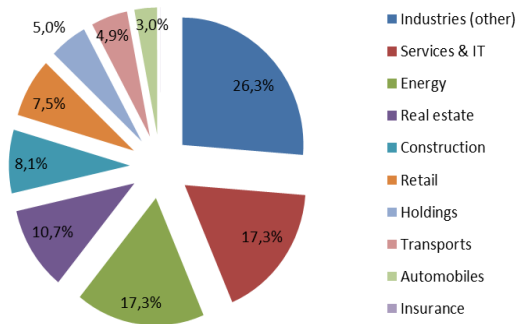
The market modernised its back-office infrastructures with the instant legal creation of new issues by market makers. This will provide the different market participants with ISIN codes in real time through a new tool developed by Euroclear France (eNEU CP) and meet the demands of major investors, especially their demand for same-day issuance, which is a plus for euro-denominated commercial paper. Same-day issuance is bound to facilitate the international dissemination of the paper, along with secure settlement in foreign currencies and in central-bank money. These new features all enhance the legal certainty of transactions.

Focus on issuer sectors

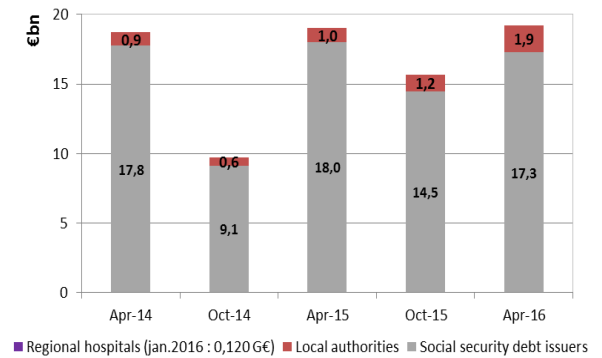
Amounts outstanding by issuer sector
(April 2016: €313.8bn; short- and medium-term issues)



Amounts outstanding of corporate Issuers by business sector, in %
(April 2016: €51.1bn; short-term paper)



Amounts outstanding of public sector issuers, in €bn
(April 2016: €19.2bn; short- and medium-term issues)

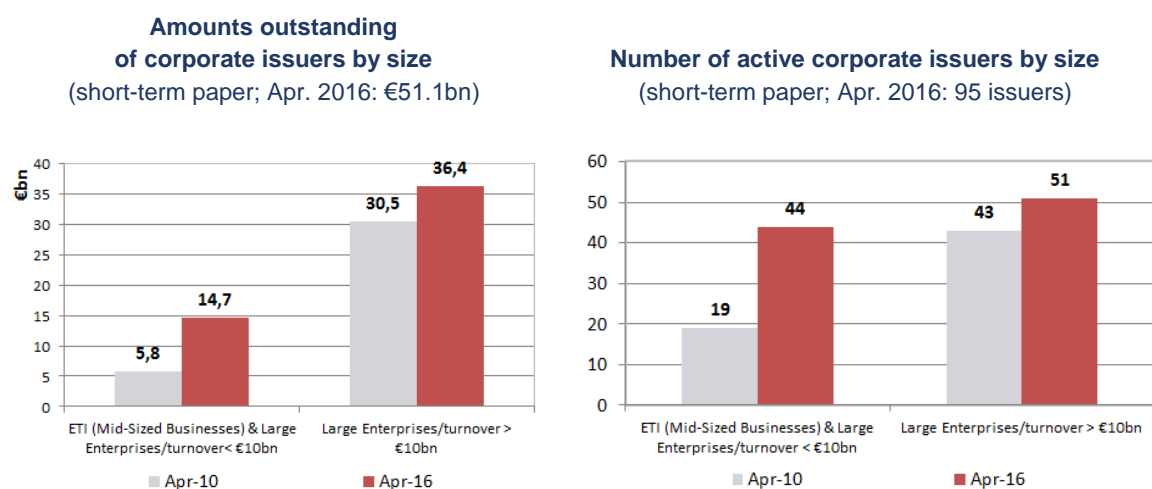


Market access

The market is open to financial and non-financial issuers, as well as public sector issuers. Issuers must draft an information memorandum with a description of the programme and a brief presentation of the issuing entity, and submit it to the Banque de France. The Banque de France website provides a template for the information memorandum.

Focus on new issuers

The commercial paper and medium-term note market attracted nearly 40 new issuers between January 2015 and April 2016, mainly for maturities of less than one year. Non-financial issuers accounted for the largest number of new issuers, with 18, including 4 foreign issuers, representing most business sectors, and, more particularly, services & IT, industrials, energy, transportation and real estate. A further 16 new financial issuers joined the market over the period, primarily through specialised credit institutions, regional banks and international groups. Finally, 5 public sector entities (4 regional governments and a hospital) also made their first issues of paper with maturities of less than one year.



International participants and access procedures for third-country issuers

Market participants include international financial and non-financial issuers and the market is open to a greater number of issuers, with no restrictions relating to the language used or compliance with French accounting standards. In addition to the existing provisions, the accounting data may be compiled in accordance with the local accounting standards of EEA countries and with accounting standards recognised as equivalent to the International Financial Reporting Standards (IFRS) and accepted by the European Commission.

Furthermore, third-country issuers will have access to the market if they have accounting information that has been audited by a public supervision system that the European Commission recognises as equivalent.

The paper may be denominated in euros or any other currency.

Use of English for the information memorandum

The information memorandum may now be drafted in a commonly used language, other than French. In such cases, issuers of paper subscribed or purchased for an amount of at least €200,000 (or the equivalent in another currency) must include a warning in French in the information memorandum inviting investors who so wish to obtain a French translation of the memorandum. Issuers are completely free to append a summary in French to a memorandum in English for French-speaking investors.

Impact of the reform on ratings

The rating requirements for programs and exemptions are not affected by the reform. Participants in the commercial paper market generally opt to have their programs rated.

In the case of rated programmes, the reform expands the list of credit rating agencies to all of the agencies registered with ESMA, provided that they have a methodology and statistical data on their activity and performance (including transition matrices and default rates) over three years, as indicated on the ESMA website.

The Reform and eligibility for Eurosystem refinancing

According to Article 68 of Guideline ECB/2014/60, as transposed by the Decision of the Governor 2015-01, to be eligible collateral for Eurosystem refinancing transactions, debt securities must be admitted to trading on a regulated market or on certain acceptable non-regulated markets that the Eurosystem has assessed for safety, transparency and accessibility.

The reform of the negotiable debt securities market has no impact on the eligibility of the instruments traded there. They remain eligible collateral for Eurosystem refinancing transactions as long as they also comply with all of the eligibility criteria for negotiable assets.

The list of all negotiable assets eligible for Eurosystem refinancing transactions is published daily on the ECB and Banque de France websites.

Specific features of the market

Access to a broader base of investors and issuers means that the market provides complementary investment and financing opportunities. It introduces new asset classes in terms of national origin, types of issuers and credit quality, including unrated issuers, thereby offering higher returns for investors. The purpose of the reform is to provide economic players with a broad range of instruments that are suited to local laws and practices.

The market features a high degree of transparency concerning the main aggregates, with the publication of daily, weekly and monthly amounts outstanding, average yields by issuer sector and by rating, and the information memoranda of all of the issuers. This information can be accessed directly on the Banque de France website.

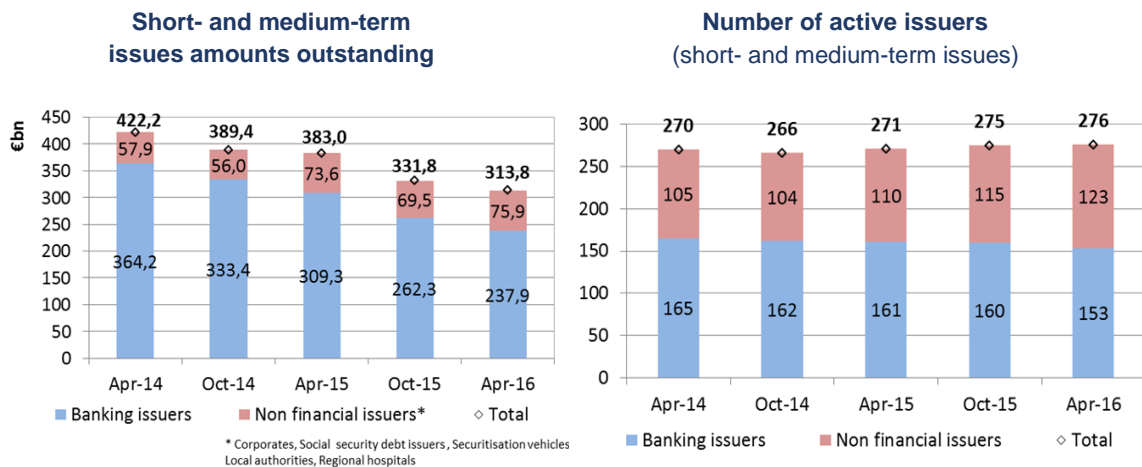
Major trends

For the last year, amounts outstanding have stood at more than €300bn. These amounts are bound to fluctuate according to players' needs, the monetary policy environment and the regulations applying to different categories of players, which have an impact on both issuance volume and the types of instruments used.

The current trend shows a growing number of increasingly diverse issuers, with greater numbers of non-financial and public sector issuers.

The reform does not have a specific target for growth of amounts outstanding. Instead it aims to provide different economic players with a market that meets their short- and medium-term financing needs and that enables them to modulate their use of the market in accordance with the business cycle.

Focus on the latest trends and diversification of issuer sectors



Two issuers' testimonials

“The French CP market is an important and deep funding source for LafargeHolcim and allows us to diversify our financing and to issue notes at attractive rates. As a regular issuer, LafargeHolcim welcomes the reforms announced by the Minister of Finance and the Banque de France. The changes will simplify for many issuers the access to a large investor base and to short-term funding through a streamlined and standardized documentation process and will further reinforce market liquidity and transparency. The reforms will ensure the attractiveness of the NEU CP market in a competitive international environment.”

Markus Unternährer
Head Corporate Finance and Treasury
LafargeHolcim

“In my capacity as Vice-President of the AFTE and Head of the Orange trading floor, I will focus on the CP market.

At the end of 2013, the AFTE conducted a survey of issuers and investors in collaboration with AF2i, AFG and the Banque de France.

The survey revealed three highlights.

The first was a special surprise for us: most of the companies surveyed thought that the CP market was reserved for CAC 40 companies only.

The survey also showed that few companies were aware of the major advantages offered by the market: simplified documentation, publication of a very rich statistical database by the Banque de France, flexibility and liquidity, and attractive issuance terms.

And last, but not least: many companies were reluctant to be rated, especially ISEs, but investors considered ratings essential.

With the support of the Banque de France, AFTE held information meetings with issuers to convince them to become a part of the CP market.

Two and a half years later, 20 new issuers have joined the market and the amounts outstanding have increased from €40bn to more than €60bn.

Collaboration between issuers, investors and the Banque de France has proven to be totally effective and boosted the market.

The market reform has improved accessibility and simplified the market, which will encourage non-financial corporations to increase their share of market financing. »

Hervé Labbé
Head of the Trading Room and Chief Economist - Orange
Vice-President, AFTE

An investor's testimonial

“As a leader in cash fund management in Europe, Amundi has been closely involved in financing the economy for a long time through its investment in negotiable debt paper. We welcome the simplification, modernisation and international opening that this reform will bring to this instrument. It is bound to enjoy more visibility on the money market as a result of greater transparency, a harmonised legal framework and remarkable ease of use. Ultimately, their liquidity, which is a key feature for investors, will be substantially enhanced.” »

Thierry DARMON
Head of Treasury Fund Management - Amundi

A dealer's testimonial

“BNP PARIBAS has been actively involved in creating a short-term paper market in France since 1985 in order to provide an instrument for obtaining abundant, flexible and competitive financing for businesses, financial institutions and government agencies, and to attract investors to this asset class with its proven liquidity, transparent data and a varied range of risk and return profiles.

In line with previous developments, the arrival of NeuCP today marks a further step forward that will simplify issuance procedures, substantially improve transaction processing and open the market up to international players. The reform has proven to be particularly important for continuing to adapt to issuers' needs and international investors' needs.

BNP Paribas, as a leader in all of the business lines relating to this market, would like to take this opportunity to reiterate its commitment through its services for issuers and investors, and through its on-going contribution to work on this compartment being conducted in conjunction with ACI France – AFTB and through its collaboration with the leading industry bodies.”

Christian FLOCH
Head of Money Market Sales, Origination and TCN Trading -
BNP Paribas

economie.gouv.fr

banque-france.fr



TRÉSOR
DIRECTION GÉNÉRALE