IBOR TRANSITION

ASSOCIAZIONE ITALIANA INVESTOR RELATIONS

CMi2i orrick

Today's speakers

Mark Simms
Chief Executive Officer

For 25 years Mark has specialised in the provision of Capital Markets Intelligence Services. He is the founder of CMi2i and its predecessor Capital Precision. He has held senior positions within the Investor Relations industry, including at Thomson Financial and ICV Ltd. Mark is a regular speaker at International IR and Banking conferences. He has also been involved in Disclosure Policy, Market Transparency, and Law reviews.

Massi Smith
Head of Debt Services

Massimiliana Smith has 15 years experience in both Debt and Equity IR and has worked with issuers and their advisors across the globe on both corporate actions and Debt IR activities, analysing over $100billion worth of bondholders in the secondary market. Prior to joining CMi2i she was a director at Nexum ID and Thomson Reuters. She has a Master degree in Political Economy from the London School of Economics and speaks 5 languages.

Alessandro Accrocca
Partner, Milan

Alessandro Accrocca is an Italian qualified lawyer and Partner in the Finance Group, based in the Milan office. He has strong experience in structured finance, banking law and banking regulation law. He has participated in a wide number of transactions, such as debt, equity and structured products issues, securitisations, covered bonds, debt restructuring and derivatives, advising both domestic and international clients.

Madeleine Horrocks
Partner, Milan

Madeleine covers all types of finance and capital markets work, with a particular emphasis on securitisation, derivatives, EMTN, covered bonds, structured finance and general lending. Madeleine advises major Italian and international banks, corporates and financial institutions active in the European financial markets. Madeleine is ranked Band 2 in Chambers Global for Capital Markets Italy (Foreign Expert).

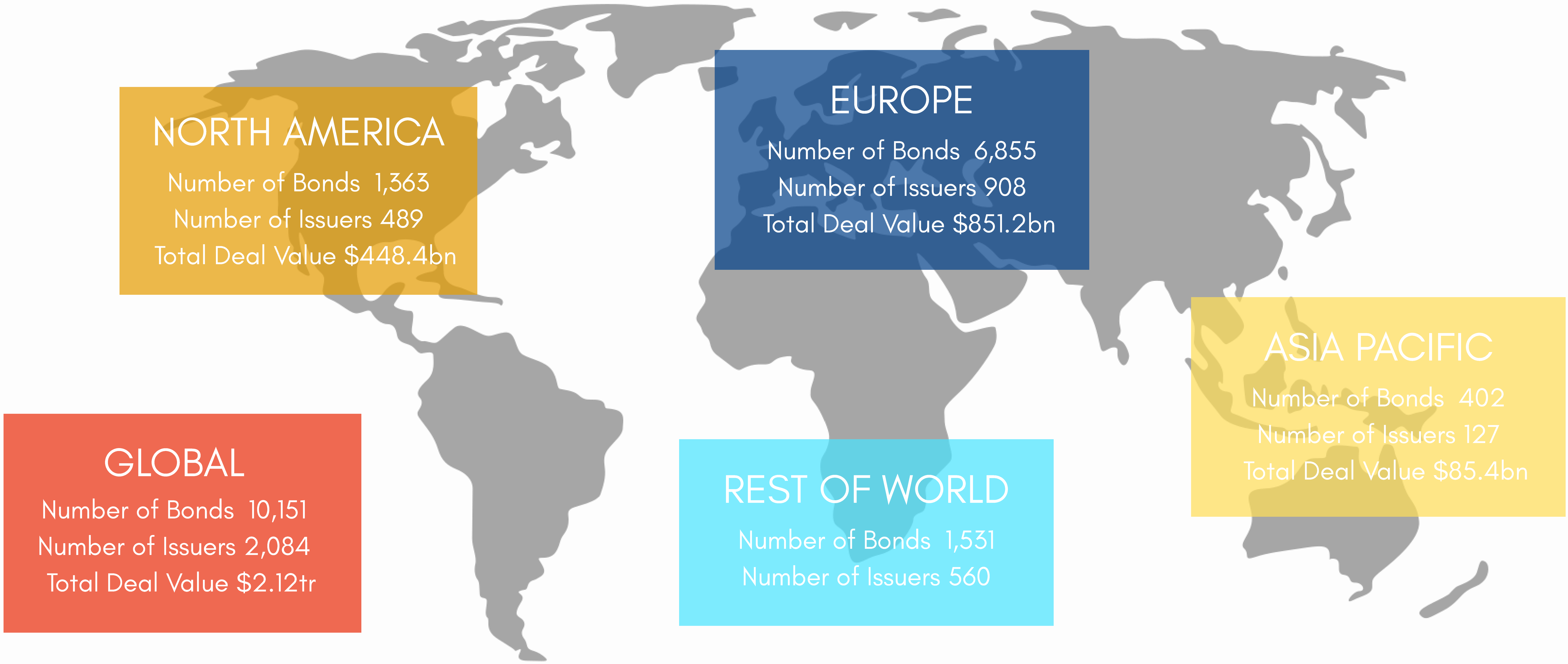
"Some say only two things in life are guaranteed: death and taxes. But I say there are actually three: death, taxes, and the end of LIBOR."

JOHN WILLIAMS, CHIEF EXECUTIVE OFFICER & PRESIDENT, FEDERAL RESERVE BANK OF NY

"If the reason you are not acting is because you think we are going to change course. I'm afraid you are wrong. You need to be prepared for an end date for LIBOR in 2021. Whether your exposure is to sterling LIBOR or one of the other LIBOR rates, you will hear the same message from central banks and regulators in other jurisdictions, as you hear from FCA and the Bank of England today."

ANDREW BAILEY, CHIEF EXECUTIVE OFFICER, FCA

SCOPE OF (L)IBOR



Data source: Bloomberg with the following parameters: a) bonds with (L)IBOR-linked exposure, b) maturity past 2021, and c) all issuer types (including government, corporates and financial institutions)

MATERIAL RISKS FACED

LEGAL

- **Liability** if failure to obtain appropriate consent of Bondholders to proposed reference rate
- **Mis-selling:** were the features & risks appropriately disclosed to investors

ECONOMIC

- **Financial models** become invalid
- **Hedging agreements** cease to be effective
- **Adverse rate** from default fallback position
- Unforeseen **impact on P&L**

LOGISTICAL

- **Operational risks:** Legacy IT systems & processes need replacing
- **Bondholders must be found** & agree new rate in EGM
- **(L)IBOR Bottleneck:** insufficient transition resources

FAILURE CREATES SIGNIFICANT REPUTATIONAL RISK

CHALLENGES

1 – Identifying Bondholders

2 – Assessing Bondholder Support

3 – Mobilising Bondholders

4 – Achieving Consent Threshold

CONDUCT RISKS FACED

"An overarching concern for us will be whether firms have taken reasonable steps to treat customers fairly."

– FINANCIAL CONDUCT AUTHORITY – NOVEMBER, 21, 2019

FCA SETS OUT EXPECTATIONS OF WHAT FIRMS SHOULD DO

- Engage with Bondholders early to educate them on the implications of the LIBOR transition
- Increase engagement and Bondholder-specific conversations in the run up to December 31, 2021
- Ensure all Bondholder communications linked to LIBOR transition are clear, fair and not misleading

INCREASED REGULATORY SCRUTINY

UK Stewardship Code 2020 heightens the focus on conduct control, requiring companies to treat their investors in a fair and transparent manner

PERCENTAGE OF BONDHOLDERS THAT NEED TO AGREE IN EGM

50%

MINIMUM

THIS COULD BE MUCH HIGHER DEPENDING ON THE ISSUER

IDENTIFICATION CHALLENGE

BONDHOLDER IDENTIFICATION IS DIFFICULT IN A HIGHLY LIQUID MARKET

Issuers must meet the '**best endeavours**' requirement for finding bondholders.

3000 INVESTORS

CMi2i identified 3000 investors across 50+ **ISINs analysed**

$36.5 BILLION

97% of holdings had been sold or changed position. Only $1bn of holdings remained unchanged

$18 BILLION

Only **1/3 of the original owners remained holders**. Ownership was exchanged across 1500 investors

ITALIAN EXPOSURE

THE CHALLENGE FOR ITALIAN COMPANIES

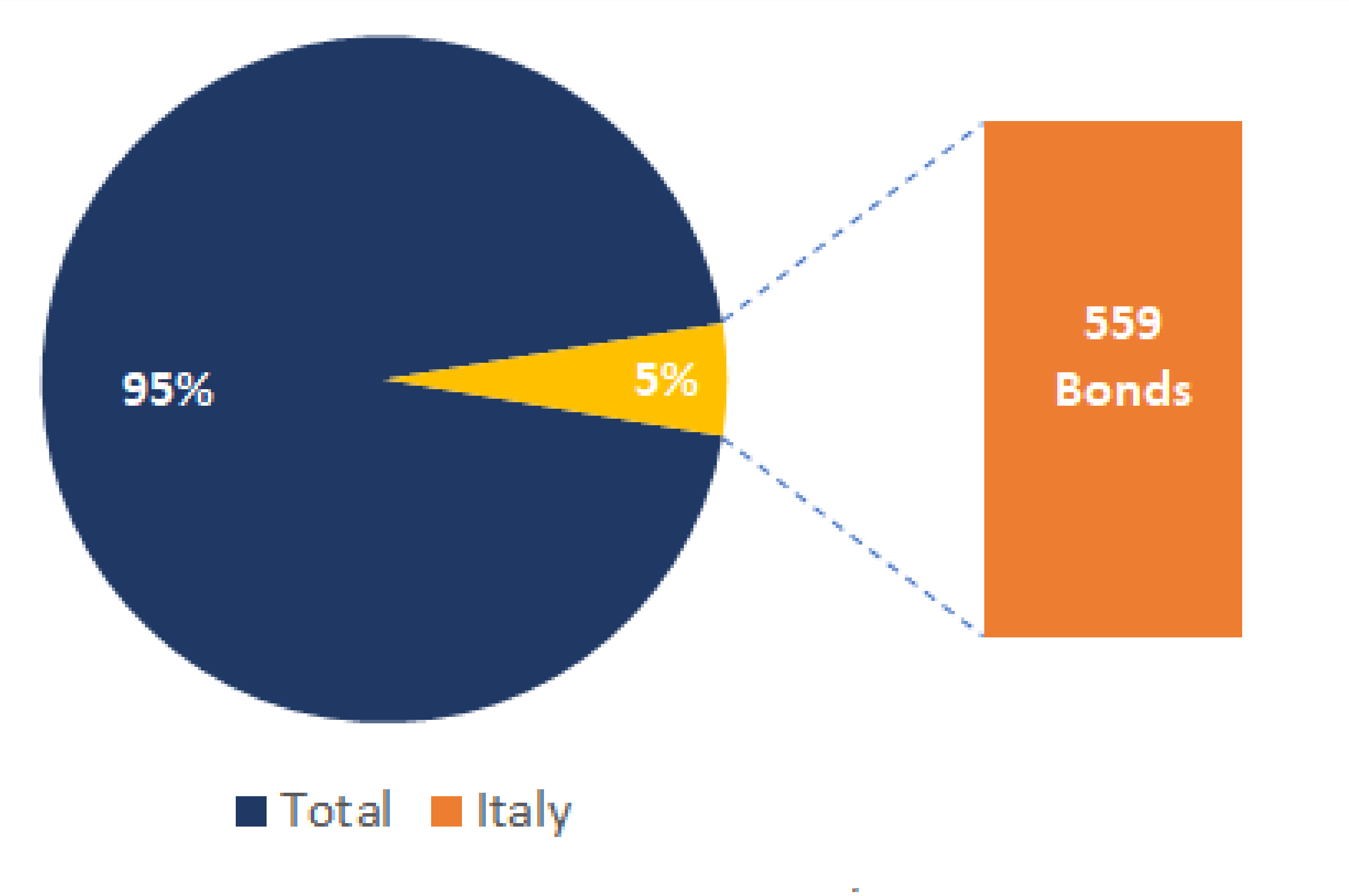
Total LIBOR Contracts Worldwide – 10,604

Italy – 559

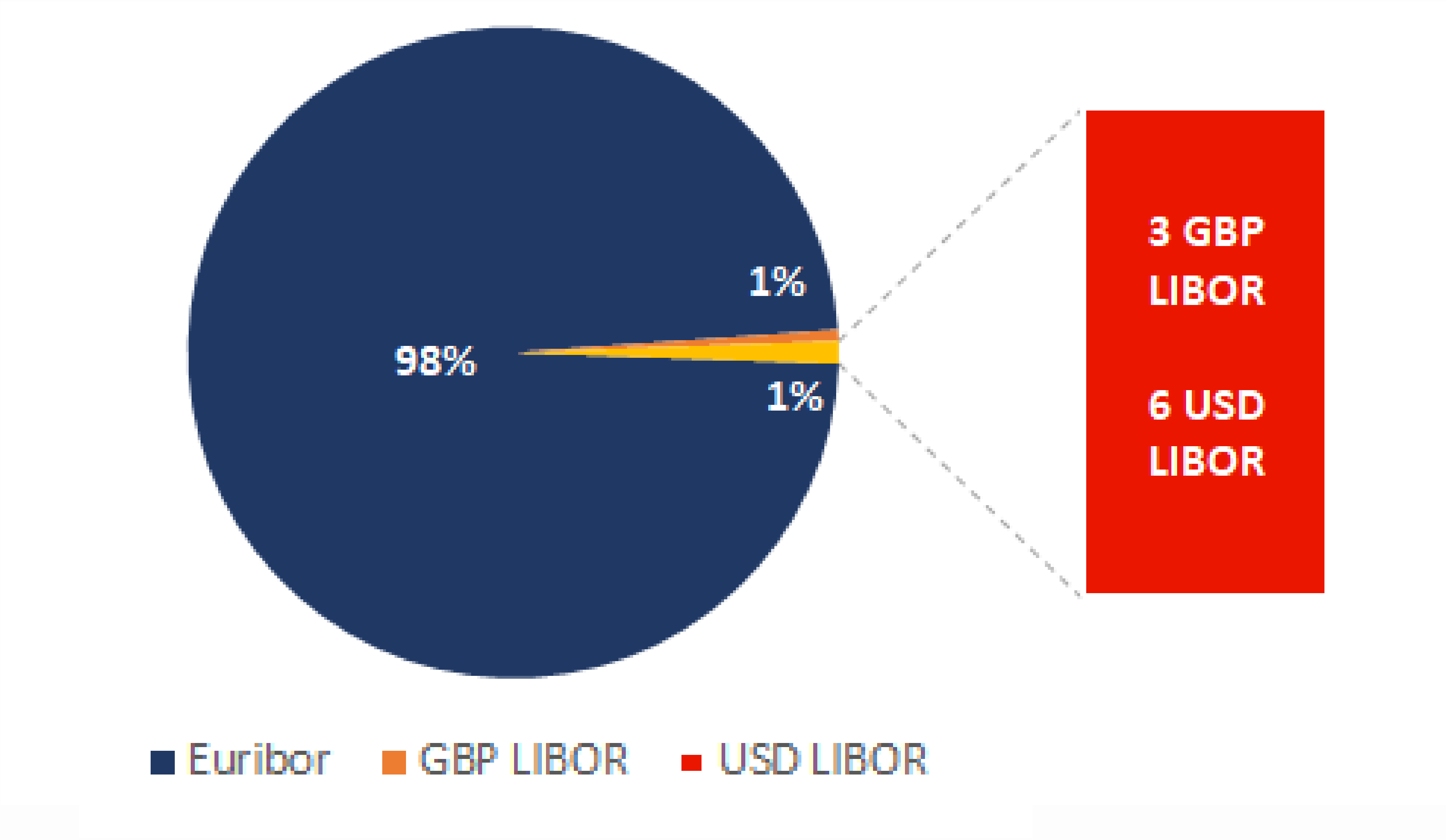
8th market in terms of number of bonds affected by the transition

Data Source: Bloomberg, October 2020

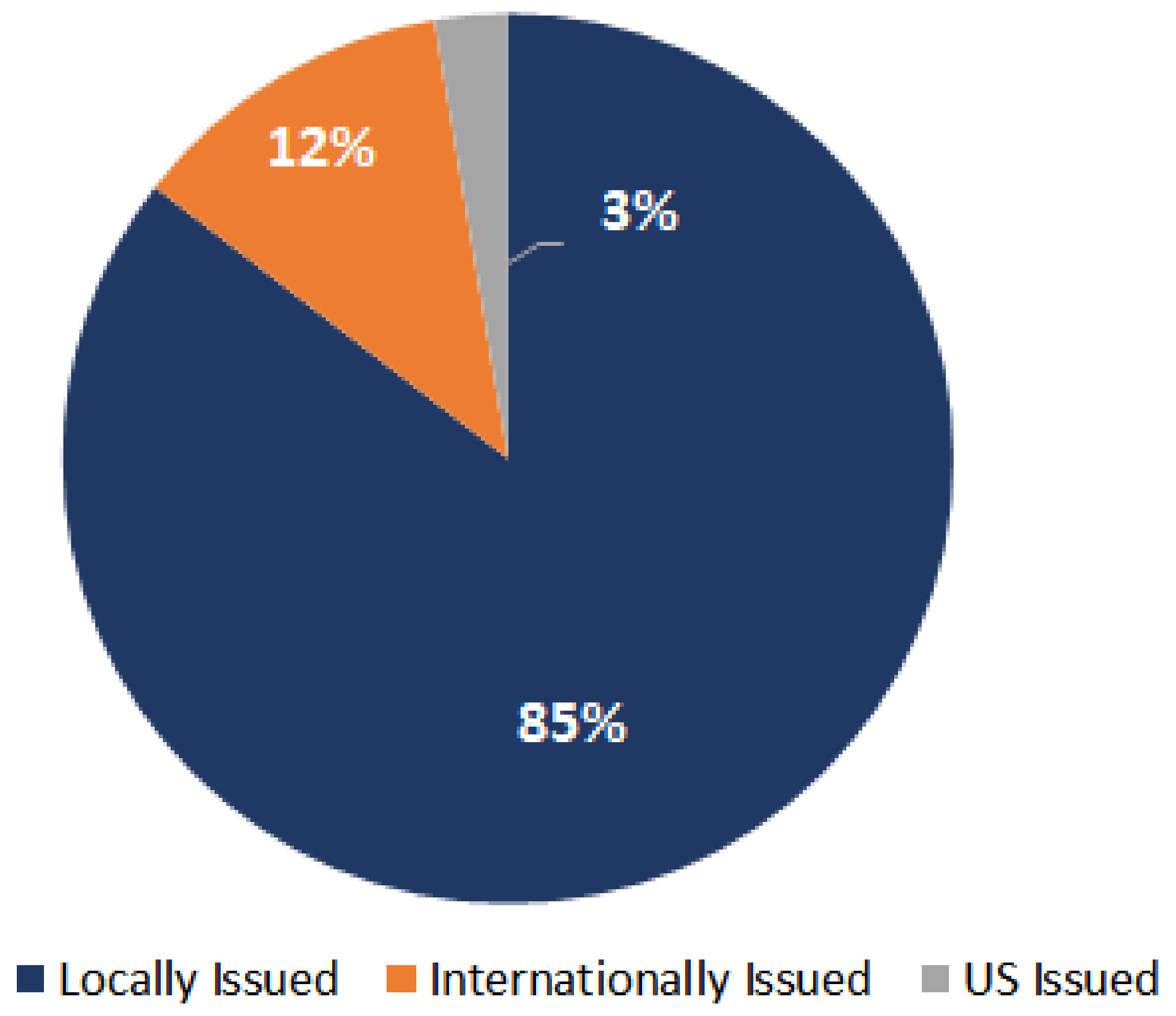
IBOR UNIVERSE – ITALY



ITALIAN IBOR UNIVERSE



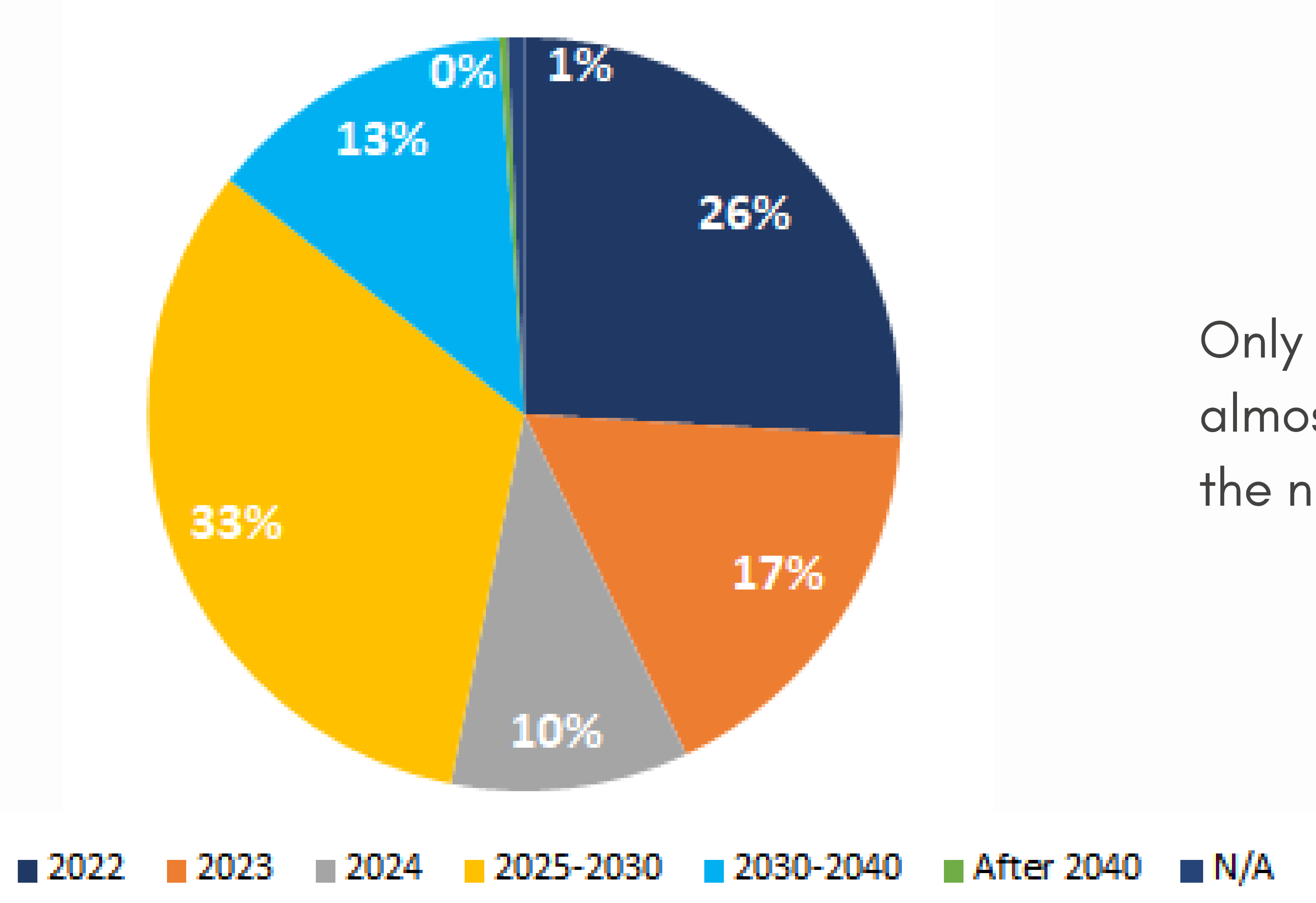
ITALIAN UNIVERSE BY EXCHANGE



The majority of the notes are issued in the local market via Monte Titoli, adding a further level of complexity when carrying out both the Bond ID and the consent solicitation vote.

Data Source: Bloomberg, October 2020

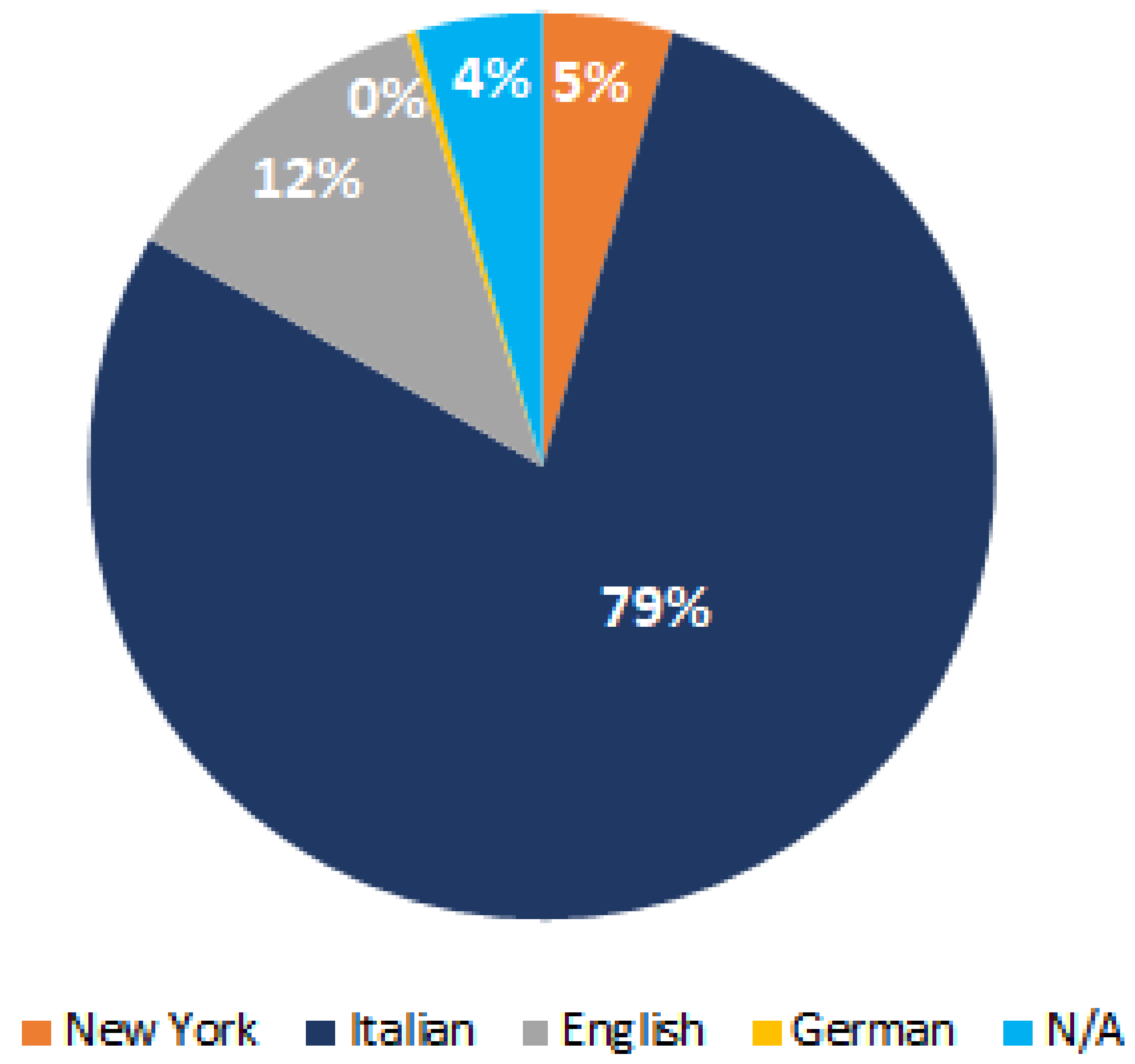
ITALIAN UNIVERSE BY MATURITY



Only 26% mature in 2022 and almost half after 2025, so deciding the new rate will be very important.

Data Source: Bloomberg, October 2020

ITALIAN UNIVERSE BY GOVERNING LAW



- 79% are governed by Italian law
- Only 12% by English law
- NY law for 5% so that legislative solution won't apply

Data Source: Bloomberg, October 2020

The Big Questions

Are IBORs really going away?

LIBOR:
31 December 2021
EONIA:
2 January 2022
EURIBOR:
No discontinuation yet, however fallback language to be reviewed asap

SONIA, €STR, SOFR, SARON, etc.
+ appropriate fallback provisions

When do I start preparing?

NOW!

Interest Rate Setting Clauses in Legacy Contracts

Why typical fallback mechanisms cannot be used to address permanent discontinuation:

Interest rate setting clauses typically provide that if the relevant IBOR screen rate is unavailable:

1. the first fallback is the arithmetic mean of quotes from a number of reference banks for the applicable rate and period; and
2. the second fallback is to revert to the most recent floating rate set when the screen rate was available.

The resulting rate would remain for perpetuity - **the rate would no longer be a variable rate -** with potentially serious economic consequences.

(ii) The rate of interest applicable to the Notes (the "**Floating Rate of Interest**") for each Floating Rate Interest Period will be determined by the Calculation Agent on the following basis:

(A) the Calculation Agent will determine the rate for deposits in Sterling for a period equal to the relevant Floating Rate Interest Period which appears on the display page designated 3750 on the Moneyline Telerate Service (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying comparable rates) as of 11.00 a.m. (London time) on the second Business Day before the first day of the relevant Floating Rate Interest Period (the "**Floating Rate Interest Determination Date**");

(B) if such rate does not appear on that page, the Calculation Agent will:

(1) request the principal London office of each of four major banks in the London interbank market to provide a quotation of the rate at which deposits in Sterling are offered by it in the London interbank market at approximately 11.00 a.m. (London time) on the Floating Rate Interest Determination Date to prime banks in the London interbank market for a period equal to the relevant Floating Rate Interest Period and in an amount that is representative for a single transaction in that market at that time; and

(2) determine the arithmetic mean (rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, 0.000005 being rounded upwards) of such quotations; and

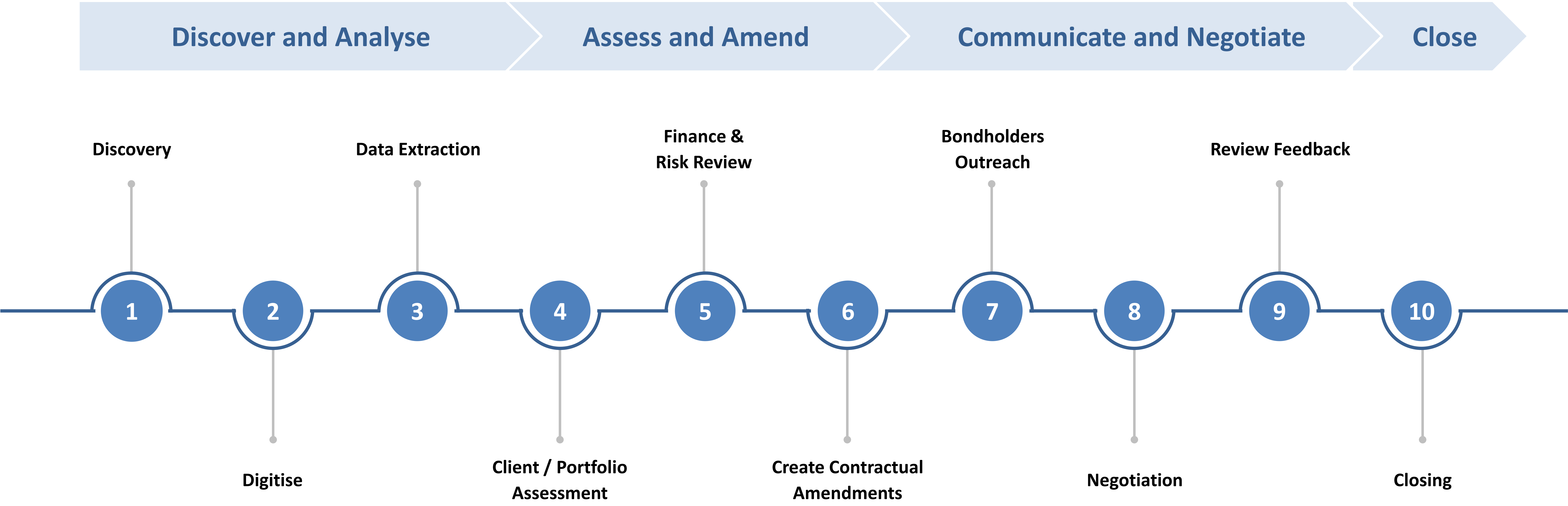
(C) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean (rounded, if necessary, as aforesaid) of the rates quoted by major banks in London, selected by the Calculation Agent, at approximately 11.00 a.m. (London time) on the first day of the relevant Interest

FOCUS: LIBOR Discontinuation – Target Milestones

	By end of: Q4 2020	By end of: Q1 2021	By end of: Q2/3 2021
Derivatives	Adhere to ISDA protocol	Cease initiation of new Sterling LIBOR linked derivatives	Assess and actively convert where viable
Loans	Progress active conversion to reduce legacy volume	Cease initiation of new Sterling LIBOR referencing products maturing after 2021. Active conversion	Complete active conversion. If not possible, ensure robust fallbacks are adopted
Bonds and securitisations	Progress active conversion (*e.g.* consent solicitation mechanisms) where viable to reduce legacy volume	Cease new issuance of Sterling LIBOR-referencing products maturing after 2021 Accelerate active conversion where viable (*e.g.* consent solicitation mechanisms) to reduce legacy volume	Complete active conversion where viable

Source: UK Working Group on Sterling Risk-Free Reference Rates 2020-21 Top Level Priorities (September 2020)

IBOR Contract Remediation



IBOR Transition Checklist (bonds)

1. Identify the scope of IBOR exposure
2. Devise strategy
3. Notify bondholders
4. Negotiate amendments

Implement amendments ahead of deadline

Consent Solicitation: Definition and Aim

DEFINITION:

- Consent solicitation is a market-based process generally set out in bond documentation.
- It enables an issuer to amend bond conditions by way of noteholders' consent.

AIM:

- Replace or amend contracts containing fallback provisions which may adversely impact the bond – following the permanent discontinuation of LIBOR – before the fallback provisions are triggered.

Consent Solicitation: Definition and Aim

Rules Governing Consent Solicitation in Italy

1. Specific provisions provided for in the by-laws of the issuer;
2. Italian Civil Code:

Article 2415

governs the competences and the functioning of the noteholders' meeting (in conjunction with Article 125-bis of the Italian Consolidated Financial Act (TUF) in case the issuer is a listed company);

Article 2416

governs the appeal against the resolution of the noteholders;

Article 2417 and 2418

govern the powers of the representative of the noteholders, if appointed;

Article 2419

governs the individual powers of each noteholder which can be exercised against the issuer.

Consent Solicitation: Steps to be Taken

CALL

- The noteholders’ meeting can be called either by the BoD or the noteholders' representative (if any), at their discretion or when requested by noteholders representing at least 1/20 of the bonds issued and not yet redeemed.
- Generally, a notice of call shall be notified to each noteholder at least 15 days prior to the meeting date - without prejudice for the exceptions provided for by the Italian civil code.

CONSTITUTIVE QUORUM

The noteholders' meeting is duly constituted if noteholders representing at least half of the bonds issued and not yet redeemed are present.

DELIBERATIVE QUORUM

The noteholders' meeting can resolve with the favourable vote of noteholders representing at least 50+1% of the bonds issued and not yet redeemed.

Consent Solicitation and Amendment of Bond Conditions: Relevant Documents

In the context of the noteholders' meeting, all documents regulating the relevant bond conditions should be carefully reviewed.

By way of example, the following documents should be made available to the noteholders:

Terms and conditions of the bond;

Agency agreement;

Subscription agreement.

Thank you for listening!

www.cmi2i.com

CMi2i is an issuer agent, specialising **in Bondholder Identification**, engagement and vote solicitation. We provide:

- Forensic equity and **debtholder identification**
- Preparatory **Risk Analysis**
- **Governance & Regulatory** Analysis
- Share & bondholder **outreach, mobilisation and vote solicitation**

CMi2i works closely with institutions, corporates and their advisors and have **provided insights on over 1000 Corporate Transactions, Proxy Battles and Activist Defences**, where accurate mapping and technical knowledge is a critical part of success.

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