

Narrative Template

Narrative template for ECM allocations

1 August 2020

This template has been developed to assist Equity Capital Markets and syndicate business/legal/compliance teams in relation to the MiFID II record keeping requirements¹. It should be read in conjunction with the AFME guidance note on Allocation Record Keeping Requirements, which can be located [here](#).

The template provides example considerations for members to refer to in preparing narrative explanations of allocation decision-making. It covers both primary and secondary documented and undocumented ECM transactions. The examples are not intended to be prescriptive and should be applied as best reflects deal circumstances².

It is anticipated that, as far as possible, this template will be used by members on each relevant ECM transaction and that one bank will take responsibility to circulate a narrative for consideration by the other banks which may be used to support individual bank record keeping, consistent with house policies.

Allocation Rationale Record for [Issuer name [[Transaction description]] in [Company name] [by [Seller Name]]

Overview of the book	
[Include introductory language regarding the deal, including composition of the syndicate and the book of demand; including, if relevant, a summary of different tranches of the book, and any relevant tranches that are not included in the book e.g. a retail tranche of an IPO covered by a domestic bank.	
Subscription level	Reference to the number of investors, whether the book was over-subscribed and any resulting impact on allocations.
Demand split/Concentration	Characteristics of investors and any meaningful splits in demand between groups of accounts (e.g. long-only, hedge funds, fundamental hedge funds, private wealth).
Client involvement in allocation decisions	<p>This section should address the extent of client involvement in allocation decisions to the extent it is not apparent from other records (per <i>AFME guidance note on Allocation Record Keeping Requirements, which can be located here</i>).</p> <p>Examples might include:</p>

¹ The MiFID II record keeping requirements are set out in MiFID II Articles 16 and 23, Delegated Regulation (EU) 2017/565 Articles 38-41 and 43 and the associated ESMA Q&A.

² For example, in the case of “on risk” transactions and final secondary sell-downs reference to the expectations of the issuer or selling shareholder may be significantly reduced or not applicable. While it is anticipated that there will be agreement between syndicate members on reasons for allocation decisions, individual banks may maintain separate records for consistency with house policies.

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	<p>Client[s] [was][were] [highly] involved in determining the final allocations.</p> <p>The [first] drafts were discussed on calls with the client[s] and the client[']s['] specific investor allocation comments were reflected in subsequent drafts.</p> <p>On the allocation calls, the top [x] allocations were each discussed in detail. [The client[s] had [strong] [specific] views on this section of the book.]</p> <p>[The remaining allocations, which reflect [x%] of shares, were discussed on a principles basis captured under “specific views on allocation” below.]</p> <p><i>[Include any desired further relevant commentary regarding client involvement.]</i></p>
Client views on allocation	<p>[Client[s] communicated the specific views set out below on allocation of the book [insert views]. Examples of the features/factors typically communicated might include one or more of the following (or similar)]:</p> <p><i>Concentration of allocations:</i> [Client[s] wanted a highly concentrated book with top [x] taking [x%] of the transaction and the tail taking [x%] of the transaction] [tail to be allocated on a pro rata basis].</p> <p><i>Investor types:</i> [Client[s] indicated a general preference for [long only demand] and [fundamental hedge fund demand] over [momentum demand]]. [Client[s] [indicated a preference for] [required] existing shareholders to be allocated [pro rata] [other].³</p> <p>[Long only accounts to be allocated over [x] % of the transaction]. [Hedge funds to be capped at [x]% of the transaction]. [Preference to allocate to accounts that have supported prior capital raises] ⁴</p> <p><i>Engagement through process</i>⁵: [Clients indicated a strong preference to allocate to accounts that were more extensively involved in the process [and/or indicated a desire for ongoing positive engagement]. [For example, wall-crossed investors/early looks/deep dives/ NDA/IOIs/PDIEs/management one-on-ones/were known to management/seller/reverses received]</p>

³ Secondary issues only.

⁴ Secondary issues only.

⁵ Less relevant for ABBs.

	<p>[Preference to allocate to account which had helped to underwrite the deal as a cornerstone].</p> <p>[Specific client direction: <u>[Any accounts which were allocated following specific client direction]]</u></p> <p><i>[Include further examples, as relevant, referring to the firm's principles for allocation, as sent to the client[s] and including client[s'] amendments.</i></p>
Principles regarding the allocation to specific groups in finalisation of book⁶	<p>Features/factors regarding allocation between specific groups of investors typically taken into account might include one or more of the following (or similar):</p> <p>[Preference given in allocation to [wall crossed investors] [existing shareholders].]</p> <p>[Allocations reflected seller focus on long only allocations for over [x]% of book]</p> <p>[Hedge funds to be capped at [x%].</p> <p>[Tail allocated on pro-rata basis.]</p>
Explanation of any material exceptions	<p><i>[For example, allocations to investors which are inconsistent with, or not clearly justifiable by reference to, the agreed criteria or where the relevant firms believe a specific further explanation would be desirable or appropriate.]</i></p>
Overall comments regarding allocations and any additional colour	<p>Examples might include the nature of the underwriting commitment, competitive profile, syndicate size, market conditions and the Bank's risk profile and tolerance.</p>

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⁶ This section may not be required where the allocation was fully discussed and agreed with client[s] such as will generally be the case on an IPO or primary ABB.