Finance for Europe

Association for Financial Markets in Europe

Briefing Note

ECM Book Building communications

6 April 2020

*This note has been developed to assist Equity Capital Markets and syndicate business/legal/compliance teams disseminating communications to the market with respect to the book of demand on Equity Capital Markets and equity-linked transactions. In disseminating communications, firms will be mindful of their obligations under, inter alia, the EU Market Abuse Regulation and their duties to clients, inter alia, under the EU Markets in Financial Instruments Directive II ("**MiFID II**").*

Whilst the suggested disclosure language has been developed for "undocumented" offerings, it may be relevant also in appropriate cases on "documented" offerings. It is recognised that, if used, adaptations will be appropriate by AFME members to reflect their house policies and individual deal circumstances.

1 Which communications are covered in this paper?

On an Equity Capital Markets/Equity-Linked transaction, the bookrunners may release communications to the market with respect to the extent to which the book is "covered".

2 Meaning of "Covered"

2.1 What does "covered" mean in this context?

A book of demand is treated as "covered" if the aggregate indicated demand in the book exceeds the number of securities available in the offer. This is a simple mathematical comparison between the indicated demand and the numbers of securities for sale.[1] Demand indicated by investors (assuming not withdrawn) represents a number or value of securities which if allocated, the investor would be prepared to take.[2]

It remains open for investors to withdraw or reduce their indicated demand[3]. No judgement is exercised in the determination of coverage as to any investor preference for an allocation at less than the full amount of its indicated demand or what the market impact would be of allocating in full.

If an investor were to indicate that it did not want an allocation above a stated amount the size of indicated demand placed in the book would reflect the actual amount for which the investor would be prepared to accept an allocation.

2.2 Is "covered" the same as "allocable"?

An indication that the book is "covered" does not mean that the transaction will take place or that all securities will be allocated. Allocations are made at the end of the book-building process, in accordance with the requirements of MiFID II and the relevant firm's allocation policies, and will reflect, amongst other things, the status of the book at this time and the issuer/selling shareholder's objectives.

1 In some cases, coverage may be further qualified by reference to price and/or size.

2 Indicated demand may include demand from entities connected with the bookrunners such as private wealth which are able to be treated as in the same way as third-party investor demand.

3 In announcements that books are covered no commitment is made to update investors if a withdrawal of indicated demand results in books no longer being covered.

3 Suggested Disclosure

Member firms may consider it helpful to add disclosure in market communications as to the meaning of "coverage", that the level of coverage might change and that the coverage message does not imply that the transaction will happen or that the securities will be fully distributed. Member firms may take different approaches to timing and content, and to where any such disclosure is located in communications.

ALTERNATIVE 1
"Books are covered. Indicated demand exceeds the deal size.

ALTERNATIVE 2
"Books are covered. Indicated demand exceeds the deal size

This is not an assurance that the transaction will take place on the terms indicated or at all, or that the securities will be fully distributed"

Where Alternative 1 is adopted member firms may wish to add the following in a disclaimer section of relevant market communications (or language to similar effect)[4]

"A communication that a transaction is, or that the books are, "covered" refers to the position of the book at that time. It is not an assurance that the books will remain covered, that the transaction will take place on any terms indicated or at all, or that if the transaction does take place, the securities will be fully distributed by [the [Joint] Bookrunner[s]].