FICC MARKETS STANDARDS BOARD

Standard for the sharing of investor allocation information in the fixed income primary markets

I Introduction

1. The FICC Markets Standards Board

The FICC Markets Standards Board (FMSB) was established in 2015 in response to the Fair and Effective Markets Review (FEMR) in the UK with a mandate to issue clear and practical guidance designed to improve conduct and raise standards in the wholesale fixed income, currencies and commodities (FICC) markets. FMSB is building a body of Standards and Statements of Good Practice (SoGPs) over time, prioritising those areas where FMSB member firms (FMSB members) consider there is a lack of clarity in the standards of behaviour expected of market participants, or a lack of understanding of the issues relevant to a product or transaction type, or evidence of poor conduct.

2. Applicability of FMSB Standards

FMSB members[1] agree to adopt the Standards in their business practices (where relevant) and to evidence adherence through an annual Statement of Commitment. The FMSB member confirms annually that it is committed to conduct its FICC market activities (its 'Activities') in a manner consistent with the Core Principles contained in FMSB Standards, and to have internal policies, procedures and controls reasonably designed to give effect to those Core Principles where they are applicable to its Activities, in a manner that is commensurate with the nature of its Activities in the relevant entity or jurisdiction. That confirmation is expected to apply to all FMSB Standards issued in final form in the calendar year prior to the year in which the confirmation is made.

The details of FMSB members are available at fmsb.com.

Standards are published on FMSB's website and non-member firms and their affiliates are encouraged to consider them. In this way, Standards are also made available to users of wholesale FICC markets (e.g. corporates, investors and other end-users) so that they may be made aware of their existence and FMSB's expectation of market conduct.

3. Relationship with law and regulation

FMSB Standards and SoGPs do not impose legal or regulatory obligations on FMSB members, nor do they take the place of regulation. In the event of any inconsistency, applicable law, rules and regulation will prevail. In developing Standards and SoGPs, certain regulators may have commented on their drafting, alongside FMSB members and other bodies, such that the Standards and SoGPs, once finalised and published, are intended to represent an authoritative statement of global good practices and processes. However, they are not normally endorsed by regulators. Where they are endorsed by a regulator, this will be made clear on the face of the Standard or SoGP in question.

4. Relationship with other industry codes ('Codes')

Other Codes already exist in relation to certain FICC markets, such as the FX Global Code, while others are in the process of being produced. There will be some overlap between FMSB's work and such other bodies and FMSB will seek to ensure it adopts a consistent approach in cases of overlap wherever possible, and will seek to avoid issuing a Standard or SoGP where the subject matter is already covered adequately by existing regulation or a Code issued by another body. It may draw attention to FMSB members of an existing code and request that FMSB members consider its applicability and act in a manner consistent with it, where appropriate.

[1] Full, Associate, and Corporate Members commit to adhere to the FMSB Standards that are relevant to their business. Information about FMSB membership is available at fmsb.com/who-we-are/

II The sharing of investor allocation information

1. Explanation

Syndicate banks historically have had varied approaches to, and procedures governing, the internal sharing of investor allocation information relating to new issuances in fixed income primary markets on the day of pricing.[2] Some syndicate banks do not share investor allocation information while, among those syndicate banks that do share such information, there are varied disclosure and consent mechanisms and associated monitoring and control procedures. These differing practices have contributed to a limited understanding or awareness among certain issuers and investors as to how syndicate banks may use or share their allocation data with secondary trading desks and the rationale for such practices.

Given these varied market practices and understandings, this Standard aims to describe the role of syndicate banks in the allocation of fixed income securities in the primary markets and the rationale for sharing investor allocation information. The Core Principles in the Standard set out certain minimum expected behaviours of syndicate banks relating to the sharing of investor allocation information for new issuances in fixed income primary markets on the day of pricing within their institutions. The Core Principles seek to promote consistent baseline industry practices for syndicate banks that share investor allocation information internally and provide both issuers and investors with certain protections and controls as to how their allocation information is used.

For syndicate banks that do not currently share investor allocation information with their secondary trading desks, this Standard does not require any changes to their existing practices.

This Standard does not apply to the:

- sharing of investor order information (i.e. investor demand for a specific deal which may be greater than the allocation the investor receives). The handling of such information is governed by individual firms' relevant policies and applicable law; or
- process by which deal statistics that provide an overview of the types and geographical representation of the investors participating in a fixed income primary issuance are shared with the market. This process is set out in FMSB's 'New Issue Process Standard for the Fixed Income Markets' (May 2017)[3].

2. Scope and applicability

This Standard applies to issuers, investors and syndicate banks in relation to wholesale fixed income primary issuances brought to market in Europe.

The Standard builds on the recommendations of the International Capital Markets Association ('ICMA') in the context of investment grade primary markets issuance. It is intended to apply in respect of best efforts syndicated offerings of fixed income bonds in the wholesale primary markets, including investment grade, high yield, securitisation and emerging market offerings.

The Standard does not apply to sovereign, supranational or agency syndications and sovereign, supranational or agency offerings of fixed income bonds in the wholesale primary markets.

[2] This was revealed by an FMSB commissioned survey in 2017.
[3] FMSB's 'New Issue Process Standard for the Fixed Income markets', May 2017.

3. Regulatory obligations and applicable law

Prior to sharing investor allocation information in accordance with this Standard, syndicate banks should carefully consider the compatibility of such information sharing with applicable law and regulation as well as relevant internal policies and procedures. In particular, consideration should be given to the Market Abuse Regulation ('MAR')[4], including whether the allocation information constitutes inside information for the purposes of MAR (see Section IV below). Additionally, any sharing of investor allocation information should be compatible with regulatory requirements and internal policies relating to fair customer treatment, conflict management and managing client confidential information.

The consent mechanisms outlined in Core Principles 1 and 3 of this Standard do not alter, or otherwise provide a safe harbour to, obligations on syndicate banks pursuant to MAR or other applicable law or regulation.

[4] Regulation (EU) No 596/2014 as amended in 2016.

4. Glossary

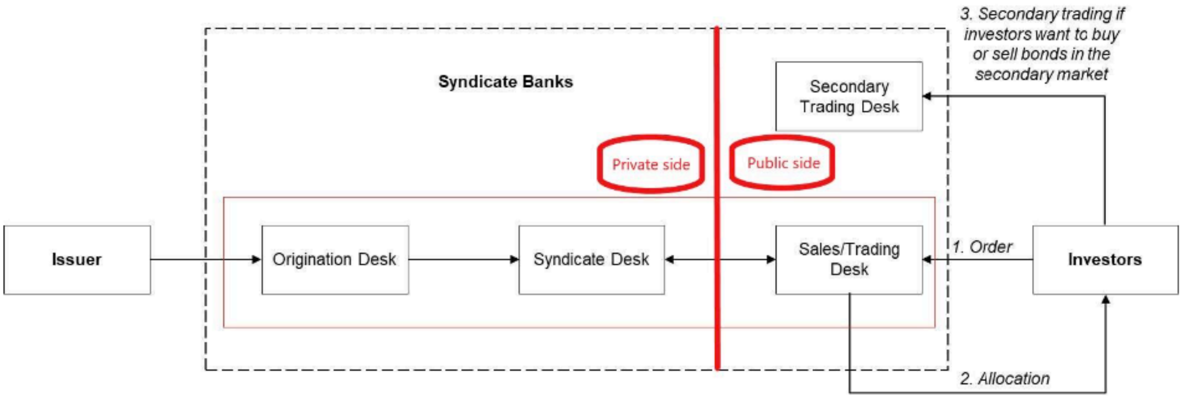
Term	Definition
'Allocation Data'	The list of final agreed investor allocations for a given new issuance of fixed income bonds in the primary market containing the investor institution name and their allocated quantity of securities. Allocation Data does not include any details of investor indications of interest.
Best efforts	Refers to an agreement between a securities underwriter (usually an investment bank) and a securities issuer, whereby the underwriter agrees to do the best it can to sell the issuer's securities to the public.
Bookrunner	The securities underwriter with responsibility for, among other things, the documentation, syndication and other activities related to the primary market issue of the issuer's securities.
Emerging market	A term used by investors to describe a developing country, in which investment would be expected to achieve higher returns accompanied with greater risk.
Free to trade	Used where there are no internal (restricted list) or external restrictions on trading so a trader in a syndicate bank working on the public side is free to solicit interest. In the primary market, bonds are free to trade after the transaction has been priced and investor allocations have been communicated to investors.
Pre-FTT	The conditional trading of securities before free to trade. Also known as the initial stage of the 'if and when issued' market (which continues after free to trade until closing and settlement of the primary issuance itself).
Hedging	The means of limiting an institution's exposure to future market movements in investments, usually by taking an offsetting (and potentially equal, if fully hedged) position.
High yield	A bond with a lower credit rating than 'investment grade' bonds, usually paying a yield higher than investment grade bonds.
Investment grade	A rating that indicates that a bond has a relatively low risk of default as determined by one or more of the ratings agencies, typically determined to be Baa3 or above by Moody's, or BBB- or above by Fitch or Standard & Poor's.
Pricing	The process by which the syndicate, having allocated bonds to investors who have communicated indications of interest, determine, in conjunction with the issuer, the final terms of the deal and calculate a reoffer price for the securities to be issued. This reoffer price may be based on a reference rate, reference bond or outright yield. The reoffer price will depend on the coupon of the security which is determined in conjunction with the issuer.

Term	Definition
Primary market	The market where new bonds are issued and sold for the first time. In the primary market investors purchase bonds directly from issuers or initial purchasers appointed by the issuer.
Public side	The side of an investment bank that generally does not have access to inside information.
Secondary market	The market for bonds that have been issued in the primary market (including conditional trading pre- and post-FTT). In the secondary market, investors trade bonds with other investors through financial professionals. The investors who sell the bonds receive the proceeds, minus fees or commission payable to banks or brokers that facilitate the transaction.
'Secondary Trading Desk'	The public side trading desk of a syndicate bank that may trade in fixed income securities in the secondary market once final allocations are complete and the relevant issue is priced and free to trade.
'SSA'	Collectively refers to high-grade public sector bonds issued in the primary market. Issuers comprise sovereigns, states, provinces, supranational, agencies and related issuers with and without explicit sovereign guarantee.
Syndicate bank	A member of a group of investment banks which jointly underwrite and distribute a new security offering in the primary market. A syndicate is not a permanent group but formed by an issuer client specifically to execute a deal in the primary market, for example where it may be more efficient for a group of investment banks to work together for the issuer.

III Role of syndicate banks and purpose of sharing investor allocation information

1. Introduction

As part of the process of issuing a new fixed income instrument, investors will communicate an order for the transaction which represents the demand or maximum allocation they would want to receive ('indication of interest'). Once the issue size and transaction parameters for a new issue have been agreed with the issuer, the syndicate banks or a specified member(s) of the syndicate banks on behalf of the group will communicate to each investor the number of bonds each investor will receive ('allocation').



2. Pre-FTT market

A new issuance will be free to trade by syndicate banks in the secondary market once the allocations have been communicated to investors, final pricing terms have been made public and a time for free to trade agreed among the bookrunners has passed. Pre-FTT trading may commence upon first publication to the market of initial terms of the relevant transaction. In pre-FTT trading, parties other than the syndicate banks may trade in the relevant bonds before they are legally issued and available for delivery and settlement (but conditionally on such issuance occurring). The ability to engage in pre-FTT trading may be advantageous to non-syndicate banks as it allows them to gather information as to initial investor appetite and whether such investors may wish to rebalance against their initial allocation.

3. The role of syndicate banks and the sharing of information

Once an issuance is free to trade, syndicate banks are expected by some investors and issuers to provide continuous secondary market liquidity for new issues that they bring to the market, although there is no legal obligation for them to do so.

In order to support the provision of secondary market liquidity, some syndicate banks that have access to investor Allocation Data on the day of pricing[5] may share such data on new bond issues with Secondary Trading Desks within their institution once the relevant issue is priced and free to trade. Some syndicate banks' internal policy limits the data, when given to their Secondary Trading Desk, to the list of investors in alphabetical order without allocation amounts.

[5] Typically, it will only be the 'senior' syndicate banks actively running the order book that have access to, and are therefore able to share, Allocation Data on the day of pricing.

This practice may allow the Secondary Trading Desks of syndicate banks to more efficiently manage demand imbalances which may have arisen in the allocation process. In the initial period of trading after pricing when the issue is free to trade, investors may wish to acquire bonds to add to an existing allocation, purchase bonds for the first time or, in the event of negligible allocation and/or strong price performance, sell some or all of their allocation. By identifying specific parties who received an initial allocation and therefore may be interested buyers or sellers, the sharing of Allocation Data enables Secondary Trading Desks to quickly fulfil secondary market demand, within the issuer's strategy, for the transaction in the period after pricing and allocation. There may also be other reasons for a syndicate bank to share Allocation Data with its Secondary Trading Desk, for example in order to manage its own risk in connection with its role in the syndicate.

4. Issuer and investor considerations

The existence and extent of any benefit of sharing Allocation Data is likely to vary across issuers and investors. Factors that may influence the value to investors and issuers of syndicate banks sharing Allocation Data with their Secondary Trading Desks include issuer profile characteristics such as the:

- frequency with which an issuer issues debt;
- liquidity of a particular issuance;
- issuance credit rating; and
- anticipated issue performance.

Typically, the sharing of Allocation Data may be more beneficial for less frequent issuers, less liquid issuances and lower rated or high yield debt where syndicate banks are more prevalent in secondary market trading on the day of pricing. Additionally, where a primary transaction underperforms the broader market, Secondary Trading Desk knowledge of Allocation Data may enable the Secondary Trading Desks to approach investors in a faster and more targeted way, including helping the Secondary Trading Desk to anticipate whether an investor is more likely to be a buyer or a seller of the new issue in the secondary market and in this way support the liquidity of secondary trading and pricing on the day the securities are legally issued.

New issues coming under selling pressure may be stabilised in accordance with MAR and supplementing Regulation 2016/1052 ('**Stabilisation Regulation**'). In a stabilisation period, syndicate banks provide support for the price of the new issuance in order to alleviate 'sales pressure generated by short term investors' and to 'maintain an orderly market'[6] in the issued securities. The sharing of Allocation Data in a stabilisation scenario may support secondary market liquidity in the issuance and help maintain an orderly market. Therefore, deals stabilised in accordance with the Stabilisation Regulation or where there is a legitimate expectation that stabilisation will be necessary (collectively referred to as '**Stabilised or Foreseeably Stabilised Transactions**') are not within scope of the default opt out in Core Principle 3. However, if, in addition to 'opting out' of having its Allocation Data shared for in scope primary issuances, an investor also specifically instructs the syndicate bank not to share its Allocation Data for Stabilised or Foreseeably Stabilised Transactions the syndicate bank should act in accordance with the express instruction (see decision tree in Appendix). This is most likely to be of relevance to a limited number of high yield issuances and, based on historic data, stabilisation is a rare occurrence for investment grade issuances.

The above factors should be considered by issuers and investors when making their determination under Core Principles 1 and 3 to prevent, or opt out of, the sharing of Allocation Data by the syndicate bank with its Secondary Trading Desk. If an issuer perceives there to be no value in permitting the sharing of investor Allocation Data it can

[6] Recital 6, Stabilisation Regulation.

inform the bookrunner of this in accordance with Core Principle 1 and as a result no Allocation Data would be shared by the relevant syndicate banks with their Secondary Trading Desks. Similarly, investors, having considered the rationale set out above for syndicate banks sharing Allocation Data, can opt out of having their Allocation Data shared pursuant to Core Principle 3. Core Principle 3 adopts an opt out as opposed to opt in approach with regard to the sharing of investor Allocation Data on the basis that the Standard seeks to strike a balance between operational efficiency for syndicate banks and investor protection for sophisticated wholesale market participants. Such an approach may not be appropriate for retail investors but this is not within the scope of the Standard.

The implications of the investor opt out under Core Principle 3 for investors and syndicate banks will depend on the number and size of investors who elect to opt out of having their own Allocation Data shared. Where investors continue to see value in this practice and hence do not elect to opt out, it is likely that current market practices around sharing Allocation Data will persist. If a significant proportion of investors, by number and size, do not view this practice as beneficial and so elect to opt out this may result in one or more syndicate banks taking their own unilateral decision to cease sharing investor Allocation Data with their trading desk altogether (for example if a syndicate bank deems that the operational burden of monitoring and controlling for opt outs outweighs the perceived benefits of such information being shared), whilst other syndicate banks may choose to share this data on the same transaction if their systems permit the Allocation Data to be managed in line with the desires of those investors who opt out.

For each new issuance, securities will be allocated in line with issuer preferences and the allocation policies of syndicate banks. The Core Principles in this Standard do not comment on, or seek to prescribe in any way, such issuer preferences or the content of syndicate bank allocation policies. However, to the extent that the allocation methodology of a syndicate bank is impacted by the Core Principles in this Standard, for example where an investor elects to exercise its right to opt out of having its Allocation Data shared in accordance with Core Principle 3, this should be disclosed to such investor.

5. Syndicate bank considerations

The key benefit that syndicate banks derive from sharing investor Allocation Data with their Secondary Trading Desks is that, for a limited period on the day of pricing, they have a timing advantage over other market participants in using such information once the issuance is free to trade in the secondary market. This advantage may allow the syndicate bank to trade a higher volume of bonds in initial secondary market trading as they can use this information to approach investors who already received an allocation in the primary market and therefore may be interested buyers or sellers. By contrast, other market participants (including junior syndicate banks) will not have access to the Allocation Data and therefore will not be able to determine immediately which investors have been allocated securities and who is likely to want to buy and sell such securities in the secondary market. This information advantage reduces after the immediate secondary market trading as other market participants can build up this information manually through speaking with investors.

IV Core Principles and commentary

This Standard sets out five Core Principles relevant to the sharing of Allocation Data with Secondary Trading Desks, together with supporting commentary.

Before applying the Core Principles, syndicate banks must assess whether information obtained, as part of a syndicate, may constitute inside information for the purposes of MAR. Notably, Allocation Data may in certain limited circumstances be price sensitive and therefore, where it is non-public, could constitute inside information. If any such information is inside information it should not be shared with the Secondary Trading Desk until it has been cleansed and appropriate information barriers and safeguards, in accordance with MAR, must be put in place. Further, before any such information is made public, it must not be used by the syndicate bank unless permitted by MAR.

Each syndicate bank, in respect of its own activities only, is also responsible for ensuring that such information sharing is compliant with all other applicable law and regulation. Syndicate banks should consider the application of FMSB's 'Information & Confidentiality Statement of Good Practice' (October 2019) in this context. In particular, any internal sharing of investor Allocation Data should only be with persons who have a valid reason for receiving such information and such information should not be used contrary to an investor's interests.

For the avoidance of doubt, neither issuer nor investor consent to the passing of Allocation Data to Secondary Trading Desks alters the obligations on syndicate banks pursuant to MAR or other applicable law or regulation.

1. Issuer control over sharing of Allocation Data

Core Principle 1: Prior to a new issuance, the issuer should be informed that Allocation Data may be passed to the Secondary Trading Desk within a syndicate bank and the issuer should be able to elect to prohibit the sharing of such information.

Syndicate banks should inform issuers with whom they have a client relationship on an annual basis where it is the practice of that syndicate bank to pass Allocation Data to the Secondary Trading Desk within such syndicate bank. This communication should inform the issuer that they will be presented with the option of prohibiting the sharing of Allocation Data on a new issuance in accordance with the below. The syndicate bank should also provide the issuer with a link to, or copy of, this Standard to assist the issuer in making its determination whether to prevent the sharing of Allocation Data on a new issuance. An overview of certain key issuer considerations is set out in Section III, paragraph 4 of this Standard.

In respect of a new issuance, the bookrunner(s), on behalf of the syndicate, should notify the issuer prior to the opening of order books that the issuer may elect to prohibit the syndicate desks of each syndicate bank from sharing Allocation Data with their respective Secondary Trading Desks.

Where the issuer elects to prohibit the sharing of Allocation Data this should be communicated by the issuer to their relevant contact at the bookrunner(s). The bookrunner(s) is responsible for communicating the issuer's election to the other syndicate banks prior to the opening of order books. Such an election applies to an issuance as a whole and therefore any prohibition on the sharing of Allocation Data applies to all banks in the syndicate.

A syndicate bank may agree with an issuer that an election to prohibit the sharing of Allocation Data applies to all future issuances with such issuer. Where this is the case, this negates the need to notify the issuer on a transaction-by-transaction basis. Such an agreement may be appropriate, for example, for frequent issuers.

If an issuer does not elect to prohibit the sharing of Allocation Data, then syndicate banks may, subject to this paragraph and Core Principles 2 and 3, share this information with their Secondary Trading Desks. Each syndicate bank, in respect of its own activities only, retains responsibility for ensuring that such information sharing is compliant with all law and regulation applicable to the relevant syndicate bank. Furthermore, in accordance with Core Principle 3, individual investors may elect to 'opt out' of having their own Allocation Data shared.

2. Investor opt out

Core Principle 2: Allocation Data should be treated as information that is confidential to the investor. As such, investors should be informed if syndicate banks intend to share such Allocation Data with their Secondary Trading Desks.

Syndicate banks should inform investors where it is the practice of a syndicate bank to pass Allocation Data to the Secondary Trading Desk and provide the investor with a link to, or copy of, this Standard to assist the investor when making its determination whether to opt out of having their own Allocation Data shared in accordance with Core Principle 3. An overview of certain key investor considerations is set out in Section III, paragraph 4 of this Standard.

Core Principle 3: Where a syndicate bank intends to share Allocation Data with its Secondary Trading Desk, investors should be provided with an opportunity to 'opt out' of having their own Allocation Data shared.

Investors should be provided with the option of 'opting out' of having their Allocation Data shared for in scope primary issuances and the steps to be taken in order to opt out. It should be determined between the syndicate bank and investor whether such opt out is applicable in relation to a particular issuance or to all issuances involving the relationship syndicate bank to whom the opt out is communicated (although the latter should not preclude an investor from subsequently changing its election).

Stabilised or Foreseeably Stabilised Transactions are not in scope of the default opt out. However, if, in addition to 'opting out' of having its Allocation Data shared for in scope primary issuances, an investor also specifically instructs the syndicate bank not to share its Allocation Data for Stabilised or Foreseeably Stabilised Transactions the syndicate bank should act in accordance with the express instruction.

Where an investor elects to opt out of having their individual Allocation Data shared, neither their name nor the securities that they are allocated may be passed to the Secondary Trading Desk as part of the Allocation Data for the transaction.

Any Allocation Data that is shared with Secondary Trading Desks in accordance with Core Principles 1 - 3 must only be passed to traders designated on such Secondary Trading Desks to receive it and must be used by the designated traders solely for the purpose of creating a secondary market for the issue or hedging risk arising from the issuance. Such information remains confidential to the Secondary Trading Desk of each syndicate bank.

For the avoidance of doubt, nothing in this Standard inhibits the sharing of investor Allocation Data with salespersons where this is necessary for the provision of the client service in question. This may be the case for example where a salesperson receives an indication of interest from, or communicates the allocation to, an investor.[7]

3. Monitoring and controls

Core Principle 4: Market participants should implement appropriate control processes designed to prevent the sharing of investor Allocation Data in a manner inconsistent with Core Principles 1, 2 and 3 and to monitor adherence with this Standard.

Market participants should implement appropriate control processes designed to prevent the sharing of investor Allocation Data in a manner inconsistent with Core Principles 1, 2 and 3 and monitor adherence with this Standard. These controls may vary according to the role the firm plays in the allocation process and their existing control environment.

An indicative list of the processes that syndicate banks, issuers and investors may put in place for this Standard in respect of each new issuance is set out below.

Bookrunner and/or syndicate banks	Records management: retain records of: • issuer decisions to restrict the sharing of Allocation Data; • any decision by an investor to opt out in accordance with Core Principle 3; • any express instruction from an investor to restrict the sharing of Allocation Data for Stabilised or Foreseeably Stabilised Transactions. Control processes: • appropriate controls to ensure that Allocation Data is only disclosed and used in accordance with Core Principles 1, 2 and 3; • appropriate safeguards to ensure that investors who elect to opt out in accordance with Core Principle 3 are treated fairly in accordance with applicable law.
Issuers	Records management: retain records of any decision to allow for, or to restrict, the sharing of Allocation Data in accordance with Core Principle 1.
Investors	Records management: retain records where an investor elects to opt out of allowing their Allocation Data to be disclosed in accordance with Core Principle 3 or otherwise communicates an express instruction to the syndicate bank with regard to Stabilised or Foreseeably Stabilised Transactions.

4. Training and investor education

Core Principle 5: Market participants should ensure that their personnel have been trained on the substance of this Standard.

FMSB members should ensure that their personnel are aware of how their organisation is adopting Core Principles 1 - 4. Syndicate banks should communicate with issuers and investors in a manner that seeks to promote transparency of the new issue process.

[7] See also Section 3.2 of the FMSB's 'Information & Confidentiality Statement of Good Practice', October 2019.

FMSB

Appendix - Decision tree for sharing investor Allocation Data