

Issuance of Corporate Bonds and Admission to Trading on the Regulated Market of the Bratislava Stock Exchange

The capital market is a place where the government, commercial companies, banks and municipalities can look for long-term resources to finance their further development and where investors can place their available financial means.

On one side of the capital market are investors seeking to invest, and on the other side are entities that need those available financial means.

Corporate bonds are currently one of the alternatives for funding a company's needs and are, at the same time, viewed as an important investment instrument that commercial companies can use and thus eliminate disadvantages of the "standard" forms of financing, in particular the credit financing.

Advantages of a bond issue as opposed to a standard bank loan are as follows:

- Diversification of the sources of financing;
- Option to acquire a relatively large amount of financial means;
- A longer maturity period;
- Greater prestige and publicity.

The below-mentioned process of preparation and issuance of a corporate-bond issue takes into account the subsequent admission to and public trading of corporate bonds on the Bratislava Stock Exchange ("BSSE" hereinafter). The process can be divided into several stages which can (but don't necessarily have to) follow each other, depending on the particular issue:

1. Identifying the funding needs

At this first stage it is necessary that the company evaluates and identifies the purpose, for which the funds acquired via the capital market are to be used. The purpose of a corporate-bond issue can be to acquire funds for the company's projects or further development but also, for example, debt restructuring.

2. Consultations and selection of advisors (issue managers)

The company can perform activities connected with the bond issue in-house, or it can authorise a securities dealer or a bank that has a licence from the National Bank of Slovakia to perform investment services. A securities dealer or a bank is not only able to perform the function of issue manager, but also provides professional advice at any stage of issuance of corporate bonds.

Depending on current market conditions, the issue must be properly timed and its adequate characteristics must be determined in particular the volume of issued bonds, the nominal value, the maturity period of the nominal value, the method of interest calculation and the periodicity of maturity dates of yields. Marketing support is usually required for the issue, so that it is successfully subscribed in its entirety and the issuer subsequently does not have to consider further alternatives how to acquire needed funds.

We recommend selecting a suitable issue manager from among the BSSE members, who can at the same time help the issuer with the introduction of corporate bonds on the BSSE.

3. Due diligence (in-depth examination)

Due diligence is an internal examination process focused on the economic, financial, taxation and legal areas. Due diligence in relation to the issuer and its activities, in order to ensure exactness and completeness of all information stated in the Prospectus of Security, is an important prerequisite in the preparation of the Prospectus of Corporate Bonds (“Prospectus” hereinafter). The results of due diligence serve as a basis for the preparation of the Prospectus and, at the same time, for acquisition of any information necessary to correctly evaluate the issued bonds and to set the parameters of the entire issue.

4. Decision of the company’s statutory body

After consultations with advisors and preliminary evaluation of the issuer, the company management submits a proposal for a corporate-bond issue to the statutory body of the company which then makes a decision on the issue and on the total volume of corporate bonds.

5. Preparation of the Prospectus of Security

Due diligence findings, complemented by various other legal documents and economic data, are a precondition for the start of preparation of the Prospectus of Security. The Prospectus must meet the requirements under the Act No 566/2001 (Coll.) on Securities and Investment Services and on Amendments and Supplements to Related Laws as amended by later legislation, and related European legislation.

The Prospectus must contain clear and understandable information enabling investors to correctly evaluate the issuer, its assets and liabilities, financial situation, profit, losses and outlooks, as well as the entities who took guarantees for the repayment of securities or for the yields and rights attached to these securities. The Prospectus must contain information about the issuer, information about securities that are the object of a public offer of securities or admission to trading on the regulated market, and a summary containing key information stated in a brief and generally understandable manner and in the language originally used in the Prospectus. The form and content of the summary, together with the Prospectus, must provide adequate information about the basic characteristic of relevant securities in order to help investors decide on investment in these securities. The summary must be prepared in a standardised format.

The issuer may choose to have the Prospectus prepared as a single document or as a document comprised of separate parts. In the latter case it is required to adhere to the division into a registration document, a description of securities and a summary document.

6. The process of approval; approval of the Prospectus

The Prospectus is approved by the National Bank of Slovakia based on the application of the issuer, the announcer of a public offer of securities or an entity applying for admission of securities to trading on the regulated market. The particulars of the application for approval of the Prospectus of Security were stipulated by the NBS in the Provision no 2/2014 in current wording.

7. Publication of the Terms of Issue and the approved Prospectus of Securities

A public offer of securities starts on the day of publication of the Prospectus of Securities; investors can start subscribing the securities in compliance with the Terms of Issue.

8. Issuance and registration of bonds at the Central Depository

Once the Terms of Issue are published, the stage of primary sale of securities commences. The duration of primary sale is determined by the issuer or, respectively, by the issuer after agreeing on it with the issue manager. The primary sale of securities, when they can be acquired by first investors, lasts until the end of subscription. The subscription period is usually from 1 to 6 months long. The Terms of Issue should include a clause specifying whether the primary sale is deemed successful only if the entire volume of the given issue is subscribed, or whether the issuer will issue bonds even in the case of a lower subscribed volume. If the entire volume of securities is subscribed before expiry of the subscription period, the primary sale ends.

According to the Act on Securities, a security is deemed issued at the moment when it has all particulars stipulated by this Act or a separate law and when it becomes property of the first owner in a manner stipulated by law or, in the case of a book-entry security, it is credited to the owner's account, a client account or a holder account. Registration of an issue of book-entry bonds means the assignment of ISIN and the entry of information about the issue into the issuer's register.

Bonds are at the same time credited to the accounts of their acquirers at the relevant depository, which concludes the process of their issuance.

9. Submission of application for admission to the BSSE

A bond issue is admitted to the relevant BSSE market based on an application for admission of bonds and an approved Prospectus. The application is submitted by the issuer or a Stock Exchange member authorised by the issuer, unless otherwise stated in the Stock Exchange Act.

The application contains identification data of the issuer and substantial characteristics of bonds to be admitted. Application annexes primarily comprise the Prospectus approved by the National Bank of Slovakia, the NBS's decision approving the Prospectus, the issuer's certificate of incorporation and financial statements for relevant calendar periods.

Every issue of corporate bonds admitted to the market of a Stock Exchange can have its rating, which unambiguously expresses the opinion of an unbiased professional rating agency on the issuer's ability to repay liabilities resulting from the issue of corporate bonds and the subsequent possibilities of their purchase by specialised institutions. Rating is not required when selling an issue to small investors, and neither it is currently required for admission of corporate bonds to trading on the BSSE.

Complete requirements concerning the contents of the application and the procedure for admission of bonds to the listed and regulated markets are stipulated in the Stock Exchange Rules. The full wording of the Stock Exchange Rules is available on the Internet at: www.bsse.sk.

10. Start of trading of bonds on the BSSE

Trading of bonds starts on the day following the day of coming into effect of the decision on admission of bonds to the relevant market, but not sooner than on the day following the day of publication of the Prospectus. Many issuers may certainly ask why the securities they have issued should be traded on the Stock Exchange when the needed capital has already been acquired on the primary market.

Investors usually buy securities on the primary market only when their issuer undertakes (in the Terms of Issue) to apply for admission of securities to a Stock Exchange market. This provides the investors with the guarantee that they will get regular information about the issuer and, if needed, they can sell the securities at any time. For investors, the fact that a securities issue is traded on a Stock Exchange is also the guarantee that a fair market price is created.

The following are the main advantages for issuers who place their securities on the BSSE:

- Creation of a current market price of bonds;
- Higher liquidity in comparison with non-publicly traded bonds;
- Optional admission of bonds to the module of market makers where they price is determined on a daily basis;
- Option for a bond to be included in the Stock Exchange indices of the capital market, which increases the issuer's prestige;
- Lower marketing cost associated with the issuance of further issues of securities;
- Regular promotion of the issuer;
- Dissemination of data about the issuer and bonds to both local and foreign press agencies (including the overview of trading).