GlobalCapital

Euro PP: small but powerful, and ready for further evolution

Although tiny in volumes and deal sizes, compared to public bond markets, the Euro private placement market has been a big success since its birth almost four years ago. Under the watchful guidance of the Banque de France and other authorities, as well as leading bankers, lawyers and investors, the market has gone from zero in 2012 to over €7bn outstanding. It has become a mainstream source of capital for French borrowers, especially mid-caps, and an attractive alternative to yield-hungry investors. Like its German cousin, the Schuldschein market, it is also attracting a higher proportion of international borrowers and investors than ever before. However, challenges remain, not least what happens when interest rates start to go up and investors face a greater choice of investment opportunities. There are also concerns as to what happens when the credit cycle turns and how this market, so far untested and much of it unrated, will cope with bankruptcies and messy workouts. GlobalCapital invited some of the Euro PP market's leading players, including issuers, investors, bankers, lawyers and regulators, to a roundtable in Paris on November 19 to discuss these topics and many more.

By Toby Fildes 20 Dec 2015

Participants in the roundtable were:

Mathias Choussy, director, investment, Eiffel Investments

Kyra Guerrida, director, credit sales France, UniCredit

Jean-Sébastien Leoni, executive vice-president, finance, NGE Group

Christophe Liaudon, group treasurer, Neopost

Antoine Maspétiol, head of private corporate debt,
Aviva Investors France

Andrew Nicola, head of EMTN origination and trading, Commerzbank

Sandrine Richard, head of private debt, France, Muzinich

Marc-Etienne Sébire, partner, head of capital markets, CMS Bureau Francis Lefebvre

Daniel Shane, managing director, Morgan Stanley

Emmanuelle Trichet, financial stability department, Banque de France

Thierry Vallière, global head of private debt, Amundi

Jérôme Zecchini, associate director, debt capital markets, HSBC

Toby Fildes, *GlobalCapital*(moderator)

GlobalCapital: Why did France feel the need to come up with its own market when there are existing private placement-type markets, such as the US PP and Schuldschein, already working perfectly well in Europe?

Emmanuelle Trichet, Banque de France: First, we were in a new regulatory environment in which the ability of banks to finance the economy was coming under strain. The ratio between bank and capital markets financing is 20% versus 80% in the US, but the opposite in Europe. So this suggests that there is a need for developing capital markets in Europe.

In this environment, regulatory changes were introduced in France: a decree in August 2013 amended the Insurance Code and allowed insurance companies to invest up to 5% of policyholders' savings in this debt, either in the form of direct loans or through dedicated funds.

This was necessary and driven by the necessity of diversifying funding and ensuring enough financing was available. We all know that large companies have good access to capital markets, but that is not the case for medium-sized companies which would not have thought of tapping international markets and needed a local solution. The Euro PP is an answer to growing financing needs and diversification.

GlobalCapital: So was it a response to the crisis, or do you think that it was a response to upcoming regulations, forcing banks to reappraise their balance sheets and loan books?

Trichet, Banque de France: I think it is linked: it was a response to these new regulations in the wake of the crisis, which are due to be gradually implemented.

What was also helpful was that the Euro PP market started in a low interest rate environment.

It was also key in the development of the Euro PP market that all stakeholders worked together, building a system of co-operation, and helping to establish long-term relations between issuers and investors, a key element for private placements. These consensual efforts gave birth to the Euro PP Charter.

GlobalCapital: So who came up with the idea first? Was it the Banque de France?

Trichet, Banque de France: The market did already exist. But there was a necessity for the French Trésor and Banque de France to step in to bring in all the relevant stakeholders on board and to be sure that all this was done in a consistent manner with financial stability in mind, building on an initiative of the Chamber of Trade and Industry and on an initial contribution of the industrial organisation AMAFI. It remains a collective effort.

Mathias Choussy, Eiffel Investments: Yes. Because it had to be structured in a proper way. The aim of the game was to get a market where the deals could be structured with best practices and processes. The very first deals were, for the most part, covenant-lite and not paripassu to banking loans. Then came the Euro PP Charter, and then, like Emmanuelle said, we all got round the table together. That was something very specific to France, which you didn't find in other countries. For example, in the UK, it's a bank-driven market. They didn't sit around a table with investors, issuers and arrangers to discuss what a documentation should be or what kind of process to use, to structure deals in a better way.

Also the structure of the Market in Europe, where most corporate financing is in the hands of banks, played a role in the disintermediation after the banking crisis. You don't have the same kind of structure in the US, or even in Germany. If no funding comes from the market during a period of banks balance sheet stress, it's a problem for the real economy. So the disintermediation process is also linked to the willingness of diversifying financing channels.

Kyra Guerrida, UniCredit: The structuring exercise came at a second stage. It's important to say that the private placement market has always been, in a certain way, in existence.

Most names from the CAC 40 and other indices have used at certain times the private placement market. The volume has increased because the opportunity was there — the investor base was ready for it.

Low rates have been an important driver, but it was more driven by demand from the investor side, which had a huge amount of cash available. The public market was not providing sufficient alternatives well, at least the yields available were not interesting enough.

As the number of trades multiplied, there has been a need to structure and consider potential risks, in terms of documentation, that come from smaller companies using the product, which are less used to the exercise.

Choussy, Eiffel: This is certainly true for the bigger companies. But for smaller ones we target, it was not the case. There was no private placement market.

Thierry Vallière, Amundi: I agree with Kyra's point. There were some regulatory initiatives that were driven by the Banque de France, notably, that helped this market to develop. But it's a market that was and is still driven by basic needs — supply and demand.

On one side, there was an increase in assets led by quantitative easing. This excess liquidity pushed down yield in many markets and created a need, from institutional investors, to find some additional return. And on the other side, there was some momentum, since banks are increasingly restricted by both local and international regulations.

Marc-Etienne Sébire
CMS BUREAU FRANCIS LEFEBVRE

Marc-Etienne Sébire, CMS Bureau Francis Lefebvre: There are two types of private placements. The first type, which has been in existence for years, is constituted of large corporates which have set up an EMTN programme. The second type, the Euro PP, appeared in France in 2012 and aimed to give access to capital markets financing to unrated mid-cap issuers. At that time there existed a particular economic climate which led to the convergence between issuers looking for a way to diversify their funding sources, in anticipation of what may come next and at the same time, investors looking for a way to find appropriately priced transactions. These investors are buy and hold investors — the initial subscribers usually hold their bonds until maturity — who need additional protections in the documentation to be pari passu with the banks financing the issuer (negative pledge covering all the indebtedness, compliance with financial covenants, etc). On the first transactions, back in 2012, we spent a lot of time negotiating even the basic principles with issuers and investors. The Euro PP Charter, and all the initiatives that came after it, considerably contributed towards the education of the market, more specifically, on how to structure transactions and promote best practices.

Jérôme Zecchini, HSBC: A lot of French mid-caps do not have access to the Schuldschein or the US PP markets. The Schuldschein market just won't work if the company is too small (revenues wise) and the USPP market won't if leverage is too high. A company with a lot of gross debt may be perceived as an NAIC 3 rating. The market depth in that segment is very limited. On top of that, if you add the fact that a lot of French mid-caps are really Franco-French, and have no name recognition outside France, then, obviously, accessing markets outside domestic boundaries becomes difficult.


Jérôme Zecchini
HSBC

So the creation of the Euro PP market did not cannibalise other private debt markets. But there was really a need for those French mid-caps to disintermediate and diversify away from bank finance.

Sandrine Richard, Muzinich: How would you define the Euro PP market today? Because if it's financing outside the capital markets, we have huge amounts of alternative financing, like leveraged loans, like private debt. What, today, is the definition of the Euro private placement?


Sandrine Richard
MUZINICH

Zecchini, HSBC: One criterion Dealogic has for its EuroPP league tables is that documentation has to be standalone. If it's issued off an EMTN programme, it's not a Euro PP. But I think there are no criteria on the size of the issuer, and obviously, no criteria on the rating (implied or not). So it's a very broad set of definitions.

Sébire, CMS Bureau Francis Lefebvre: There is no legal definition of a private placement. If I refer to what we specified in the Euro PP Charter, the issuer is unrated, the deal is not issued out of an EMTN programme, and is based on a deal-specific documentation which is negotiated between the borrower and a limited number of institutional investors.

Richard, Muzinich: So do you include unitranche or leveraged loans?

Vallière, Amundi: I think this is a completely separate market, as you say. It's a more leveraged market. That is a different market from the corporate market, where you find less leveraged transactions. And therefore, the Euro PP is more a brand that is being used by the French market to promote those kinds of financing for corporates.

Beside this market, there is a larger and more mature market with a different type of investor for leveraged companies, whether with a sponsor or not. And, obviously, the return, the risk, are completely different.

GlobalCapital: But why do you think France felt the need to come up with its own product, distinct from the US PP and Schuldschein?

Daniel Shane, Morgan Stanley: The reason France has been such a big focus of the private placement discussions is because the insurance community in France is very sophisticated, focused and willing to look at this asset class as a way to enhance yields.

They're willing to sacrifice liquidity in return for interesting, unrated, infrequent or first time issuers in the capital markets, although they have to be able to do the credit work themselves to participate in those deals. We had an investor community in France that was ready to start looking at this asset class and this product.

There are definitely some markets that are better suited to certain companies than others. Whether that's a function of NAIC rating requirements in the US PP market, or whether that is down to domestic knowledge of domestic issuers.

But at Morgan Stanley, we're not focused on the format, at least not initially. When we have an issuer that's looking to access a private market, or we recommend to them that there's an opportunity to do something privately, we will start by thinking who the target audience could be, whether it will be a French insurance company, an Italian insurance company, a German one, or a US one.

We identify the investors who might like that credit, based on their criteria. As long as an issuer and an investor are willing to do a transaction, and both sides can agree on economics and covenants, usually, the documentation and the format can follow to suit the investor's requirements.

Vallière, Amundi: The format is not material. The documentation, yes, definitely. All the protection that would be encompassed in the documentation, this is critical. And it comes second after the credit analysis. Then, finally, we discuss pricing.

Shane, Morgan Stanley: Sometimes pricing is a little earlier, but yes. I've never seen a trade fall down because investor and issuer couldn't agree on the format.

Guerrida, UniCredit: All the tools are complementary to each other. I agree that when you talk to an issuer, to discuss financing needs, there are several options on the table. US PP has a longer maturity profile. The Euro PP market is increasing, in terms of maturity, but it's still, mostly, five to seven years. Schuldschein is, again, something else: it's more domestically driven. On the choice of product, the banks are there to advise on what is doable and what is not.

Jean-Sébastien Leoni, NGE Group: As an issuer, the choice of the format for the deal we did was driven by external, non-financial issues. We have 92% of our turnover in France.

Jean-Sébastien Leoni
NGE GROUP

It was mainly a matter of publicity, marketing, being public without being public — we are a privately owned company, so we chose a listed Euro PP format to increase the visibility of NGE, and increase our ability to see investors for the concession market and potentially the project bond market. NGE is an active player in the infrastructure concession market (PFI…). As a promoter of projects, NGE is seeking financial partners and long term investors to finance these deals. Investors playing in the Euro PP market have also specialised teams for infrastructure project bonds. Raising publicity of NGE is an objective as our main competitors are listed global players.

GlobalCapital: Was diversification a driver as well?

Leoni, NGE Group: Yes, of course. At first.

GlobalCapital: Turning to Christophe at Neopost, you've done a Schuldschein, Euro PP and US PP. Do you have a preference?

Christophe Liaudon, Neopost: The first point is: what is your need? Definitely, we tap the US PP market, because we have activity in dollars. Some 40% of our activities are in the US, so that does attract US investors to Neopost. The second point is that we have debt of about

€1bn-equivalent.

Christophe Liaudon
NEOPOST

So we definitely need diversification. We chose to go into the Schuldschein market after the US PP, to diversify our investor base.

If you look at where in the French market you get long term debt, the banks were virtually not there any more.

We had no difficulty at that time in getting a revolving credit facility from the banks, but if you wanted a five or seven year loan, that was a little bit more difficult. Our activity needed long term debt, and that's why we chose to tap the Euro PP market.

As an international company, we have no problem to grow under these different formats and different laws.

GlobalCapital: Is what you describe going to be the norm in Europe — going to non-bank investors for your term debt, alongside revolving credit facilities from the banks?

Liaudon, Neopost: What we decided in 2012 was to have a revolving facility as a back-up of our financing, just in case one of the markets shuts down at any point. So we are not really using bank facilities any more, we are using the other markets.

Shane, Morgan Stanley: Even for large cap companies or larger mid-cap companies now, cash management in a very low or negative deposit interest rate world is much more of a focus. And so doing a €300m or €500m public benchmark bond and having a lot of the cash held in treasury for a period of time has an enormous cost of carry for corporates.

Even for larger cap companies the idea of public issuance is now something that brings into question the efficiency of cash management. That's where private placements can be a very useful tool in raising €50m or €100m, as and when they need it.

Guerrida, UniCredit: We need to temper the statement that this trend might become the norm. It's a question of maturity. Up to five years it's going to be very difficult to serve investor demand, because there is really tough competition from bank lending, at very attractive conditions.

Where the institutional-driven demand can make a difference is in longer tenors: seven years and beyond, where bank lending is traditionally not there and the regulatory environment discourages them.

There is also the question of credit profile: for some companies that have, let's say, aggressive capex, it is going to be complicated for banks to provide anything beyond a revolving credit facility.

Zecchini, HSBC: The pricing criteria are very interesting because if you compare apples with apples, at the same tenor, a Euro PP, Schuldschein loan or a public bond will be more expensive than a bank loan. But as companies grow, the financing diversification angle makes more sense to them. So the trend for large caps is really to have some unsecured long term funding through the capital markets and to have undrawn committed facilities. For mid-caps and small caps this is less the case today, but as these companies grow they understand that diversification becomes a sensible strategy.

Leoni, NGE Group: Because some banks have stop and go strategies, we cannot foresee what they'll do. So it makes sense to have a larger, broader investment base to make sure you have finance.

Andrew Nicola, Commerzbank: There are portions of overlap between all the various different products we have, and it comes back to the concept of diversification, and what suits the issuer and the investor at the right time, to be able to deliver what is required.

What is very clear is that in the depths of the crisis we saw banks pulling back from lending and allowing these types of market to flourish, and offer the structural augmentation in the documentation.

Naturally, we look at this business in the context of putting the client's interest first, whether we look at that from the issuer or the investor perspective, and then work out what is the true and appropriate product to be delivered.

Trichet, Banque de France: The authorities have no norm or target in mind regarding the right balance between bank and market funding but it is true that we are in a period of transition from a predominantly bank-funded economy to a more balanced financing model, offering a wider range of tools of financing. The process has already started. In France, it has been particularly marked and market-based financing now accounts for 39% of outstanding debt of non-financial entities (versus 27% in 2008).

Capital markets will complement in part bank financing with stronger interaction between them. A good example is when an insurance company partners with a bank to do a Euro PP.

GlobalCapital: Would the big, mainstream investors of this world have bothered to do their own credit research into a French smaller mid-cap to lend €30m four or five years ago?

Antoine Maspétiol, Aviva Investors France: Four years ago Aviva Investors France was only addressing the IG segment. Considering smaller companies is a different job and requires different skills.


Antoine Maspétiol
AVIVA INVESTORS FRANCE

As always, we need to make sure we are doing something we understand. If you do something you don't understand, you're going to run into some problems. The corporate sector includes everything from the little bakery round the corner to the huge listed entity. Before addressing mid-caps as investment advisor, we ensured we had the right set up in place with the right people. Ultimately, you need to target what you are comfortable with, and that's why we're not competing with banks, because we are not able to cover the whole spectrum.

Choussy, Eiffel: The more you go down in size, the more analysis you need, because most of the time there is a lack of information available. When you are lending to a small company for eight years, it's like providing equity. So you really need to test business plans, you need to have a clear view of what the company is going to do in two or three or five years' time, so you can structure deals with the proper covenants.

It's much more work than liquid, rated investments, where you can always find a bid in the markets. This market is not liquid at all.

Vallière, Amundi: I would definitely agree with Mathias and Antoine. In private debt, as the name suggests, there is no liquidity or limited liquidity and therefore all the investors have hired people to perform deep credit analysis.

We really need to fully understand the credit. We buy it for seven years and there won't be any easy liquidity. It's not like in the fixed income market if you get something wrong you are able to find someone that might buy you out at an acceptable price. In private debt that would be much more difficult, it would be hard for you to find this liquidity. So this is really the reason why the critical point is the credit analysis.

Nicola, Commerzbank: It's a question of maturity and of perceived standardisation. Let's not

Mathias Choussy
EIFFEL INVESTMENTS

forget, the market is only a few years old. In the Schuldschein market, which has been around ad infinitum, there is a secondary market, there is loan recycling type of business going on. And that will end up being the natural consequence for this market. But that's not something that can happen now. It has to have a certain depth, a certain outstanding notional and participants who are involved and willing to participate in matching up a sell to a buy order.

There will be occasions where dealers between the two will be looking to take opportunities themselves as well. But that can only happen when there is a critical mass in this market, and we are not quite there yet.

Shane, Morgan Stanley: There is definitely anecdotal evidence showing that more and more insurance companies are becoming present in this market and they're dedicating resources to private placements. Interestingly, I had a conversation with an insurance company the other day who had a third party asset manager running a private placement mandate for them. And they were really frustrated and disappointed with what that external manager had done and didn't feel they were achieving the objectives, in terms of just the sheer volume that they wanted. So they were going to bring it back in-house, get a credit analyst team and build up the research capability themselves.

GlobalCapital**: Why do you think they're building up their credit capabilities? Because of a lack of opportunities elsewhere?**

Shane, Morgan Stanley: Well, this is the whole thing about scarcity of assets. You get an opportunity to enter products you would never otherwise see. The classic situation is that there might be a terrific public benchmark 10 year bond that comes to market for a triple-B or unrated issuer. You've managed to do the work on it internally and you put in an order for €100m, and you get allocated €20m. In a private placement you could do the work and get your full allocation. That makes a lot more sense for an investor.

Daniel Shane
MORGAN STANLEY

Guerrida, UniCredit: Today, if you want to invest in a good double-B name in the public market you're having the chance to get 2% yield, max. In the PP market you may get depending on rating and tenor some 3%, 4%, 5%… 6%.

Richard, Muzinich: It's like equity risk. At the beginning, it's key to be really convinced that the deal can be repaid at par, because it is illiquid and the maturity is quite long. We need really to have low default rates.

And that's why banks for us are very helpful. We really work together: banks provide things that typical investors cannot provide. Banks have a real role as arrangers and we are happy for them to keep it, because they can really help you understand the situation and find a win-win transaction.

Banks are also useful to deeply understand the history of an issuer thanks to their long relationship with them.

Vallière, Amundi: Coming back to your question on why investors are coming into this market

Thierry Vallière
AMUNDI

and some of them doing it internally. There are some really big barriers to entry. To invest in small and mid-caps has a significant cost. You need to build an efficient sourcing. You need to have dedicated credit features. And to do so you need to be big, to amortise all your fixed costs.

So this is maybe the reason why you see more and more specific asset managers doing this, for insurers or family offices or whatever client. The first reason why those clients usually come to us is because we are in a very low interest rate environment and they want to find return. In this market there's a premium you can capture with PPs.

Those investors that are mainly invested in liquid markets know that liquidity is good, but they compromise on premium.

So premium is the first reason why they come to us. The second is the sourcing. We are offering them diversification of their portfolios, with a very low volatility, access to companies that usually don't have access to a public market, usually small and medium companies.

And the documentation can be tailor-made: no standard terms, secured, unsecured transactions, with covenants or without covenants, and this also gives them some comfort.

Trichet, Banque de France: Robust credit analysis by institutional investors is key for the authorities. And, investors should clearly consider resorting to secure transactions when needed or an amortizing structure instead of bullet repayment for very long maturity transactions.

Emmanuelle Trichet
BANQUE DE FRANCE

GlobalCapital**: How do you price deals? Do you use external sources or is it purely based on your own research?**

Vallière, Amundi: For us, the pricing comes last. First is the credit analysis, then the legal documentation and then the pricing. To do the pricing, we ask the investment manager to convince us, the investment committee, that there is a premium on the transaction.

The head of credit research sits on the investment committee and is there to challenge the asset manager.

This premium is the reason why our client comes to us, but it will really depend on the nature of the company: for an investment grade company, for a sub-investment grade. But usually it is about 40%, on top of what you could secure in an equivalent deal on the public markets.

GlobalCapital**: But do you use external companies to give you credit information about borrowers, or is it public sources plus your own?**

Vallière, Amundi: It's public sources and due diligence with the company. We perform our own credit work internally and then for the rating we just cross-check if it's consistent. At Amundi we are part of a bank group. Therefore, for companies we invest in, we double check whether we have some relationship within the group, and therefore we have an internal rating that we analyse also.

Choussy, Eiffel: There are interesting offers coming in the market — I'm thinking about the Banque de France rating, for example, which is something you can use. There are also different rating agencies providing services, and initiatives in terms of treatment of quantitative data. There are a lot of new projects coming in the market but it doesn't stop you from doing your own credit analysis.

Sometimes it's very useful, because when you get to trade a lot of companies, you want to have more opinions on the credits.

Maspétiol, Aviva: It's really a private market so to be honest it can be hard to justify a specific pricing level. The banking facilities are not necessarily a good reference, because they do not reflect the risk — they often have 'relationship' pricing. With a PP, there is no side business, so that needs to be reflected in the pricing.

I'm not sure there will not be liquidity in the long term. But clearly there is less liquidity than in the public markets, so this also needs to be reflected in the pricing, as does the maturity.

GlobalCapital**: What happens to this market, and indeed other European private placement markets, when rates return to more historically normal levels?**

Trichet, Banque de France: A rate rise will really be a test for the sustainability of this market. What happens will depend on the impact on bank lending, on the Euro PP's attractiveness for issuers, and for investors, who might then prefer higher quality names.

Focusing on financial stability, the private placement markets were only around €4bn in France and €7bn at the European level in 2014 according to different private databases, which does not represent a major risk at this stage.

But indeed, a decrease can be observed in the average size of the transactions with more cross-over firms tapping the market and the Euro PP is an unregulated market.

This is why public authorities want to rally the market round common core principles in terms of financial stability. Having the role of the parties clearly defined, high execution standards, stressing points of attention for market players and all this governance that protects the institutional investors help establish a more robust market. And, one main point of attention has been the pari passu treatment between existing creditors and new comers, in terms of debt ranking, legal and economic protections and access to financial information disclosure; this access will prove to be key at a later stage, in case of a restructuring, in order to find a consensus. Market discipline is essential.

Shane, Morgan Stanley: Interest rates have been one factor, but there are a lot of factors that have driven this market, including bank deleveraging, which looks like it's here to stay. And liquidity in the secondary public markets isn't going to change any time soon, it seems.

That's the common discussion right now about the challenges in secondary bond market liquidity: are you sacrificing that much liquidity by buying a private placement versus a public deal?

Of course, higher rates result in a reset of yields and it might mean that a lot of insurance companies with minimum returns requirements are able to go up the credit spectrum, or migrate into a slightly different universe of clients. But the product, the asset class doesn't need to change.

Right now, low interest rates are a very good reason to try and develop and push this market. Once there are more investors and more issuers, hopefully it will then be sustainable, even if rates do rise over the next five years.

So I think the developments we're seeing are not just short term.

Nicola, Commerzbank: It's definitely a product of the environment. You look back at the crisis. At the start, many corporate issuers were caught short with a lack of funding available. You saw an over-compensation for that on the investment grade side, where issuers came in and very much over-issued bonds. You now have a situation where you have low rates, very well-funded

Andrew Nicola
COMMERZBANK

issuers and corporate IG issuance tailing off.

So, the parameters for Euro PPs are still there. When rates do start coming up, then investors' minds certainly will look to switch, in terms of what returns they need.

But as a product and as a market, given its establishment, and the nearly domestic feel of this market, I think it certainly will remain.

GlobalCapital: The USPP and Schuldschein markets have survived and prospered through market cycles. But the Euro PP is slightly different isn't it? It's very much a small to mid-cap market nowadays, and therefore perhaps is a bit more vulnerable to a shift in rates.

Guerrida, UniCredit: Actually, I would say the contrary, when you talk about smaller companies. If you look at implied ratings of, say, single-B, this way of funding is independent of rates — it's not like 50bp or 100bp are going to make the difference for the issuer or the investor.

I think the Euro PP is an additional way to finance within a spectrum of other products. Some insurance companies might think about the amount allocated to this instrument, but assuming the instrument is going to be suffering or disappearing, no.

This new market is here to stay, as long as we don't get bad news or defaults.

Kyra Guerrida
UNICREDIT

Shane, Morgan Stanley: There's the often quoted statistic: how in the European market, corporates still receive 75% of debt financing as bank loans, versus 25% as bond issuance, and how the reverse exists in the US. That would suggest we still have an enormous potential progression in terms of shifting to greater use of bond financing.

Maspétiol, Aviva: Standard & Poor's said c. 75% of the financing today is dedicated to refinancing. Then, the alternative funding will grow faster if GDP growth accelerates as we can expect more growth opportunities, increase of capex spending, dynamic M&A pipeline, etc.

The banking system will most likely structurally be unable to cope with a significant growth in corporate financing needs anticipated in a number of countries. I'm confident that there will be room for others to meet funding needs.

Let's not forget that the allocation from institutional investors to this market is really small. Aviva is dedicating in a year probably less than 0.5% of its assets under management to these activities.

Sébire, CMS Bureau Francis Lefebvre: Regarding the ratio of bank financing to capital market financing, the actual figures vary considerably depending on whether you are comparing a large company or a smaller one. CAC 40 companies are already extremely disintermediated — they have been, for years, satisfying their financing needs through capital markets. The Euro PP market, although also used by large companies, was a genuine game changer for mid-cap and small-cap issuers, who previously could not access the capital markets.

: And the market has developed: listed and unlisted, subordinated debt as well.

Sébire, CMS Bureau Francis Lefebvre: Back in 2012 and early 2013, almost all Euro PPs were listed. Although some issuers were interested in a listing, most of the time, the listing was a consequence of regulatory requirements to which the investors were bound. The French Insurance Code was amended in August 2013 to make it easier for insurance companies to invest in unlisted transactions, and today I would say that less than a third of Euro PPs are listed.

Unlisted transactions opened the market to new issuers who require that their financial statements remain confidential. Depending on the needs of the borrower and the investors, the Euro PP offers flexibility, with various formats available: loans or bonds, unlisted or listed, on regulated markets or multilateral trading facilities.

Zecchini, HSBC: There's definitely a major shift in terms of the formats used by issuers so far this year. When you look at the stats, since January 2015, now I think it's 50-50, listed versus unlisted. During the same period in 2014 it was more like 70% listed and 30% unlisted, so it's made a significant difference.

Shane, Morgan Stanley: And that will bring more issuers in. There are issuers we've had who were very reluctant to do a listed note because of exactly those confidentiality issues. They were willing to share financials with the investor under a confidentiality agreement, but they didn't want the whole market to have access to their financials. So that will open up a whole new avenue of issuers, I'm sure.

Sébire, CMS Bureau Francis Lefebvre: The fact that the first transactions were listed brought traction to the market, because people saw that something was happening. Investors started to put teams together. Borrowers learned that an alternative funding solution was growing rapidly. One of the issues we have now: with fewer listings and therefore less information available publicly, how do you ensure transparency for issuers and investors, to do their benchmarks and also for the market to develop?

: We've talked a lot about France and French issuers, but over the last year or so more non-French issuers have issuing under Euro PP documentation, Prada of Italy being one of them. Will we see more of that?

Guerrida, UniCredit: Clearly. There is, talking about Prada and some other transactions, plenty of demand. The Italian market is one example, but there is demand for Euro PP from different regions.

Prada is a very international player and we have done other placements from Italy. Many companies really have an international profile in revenues but are not that well known. When you think about the Italian market, and the same applies to the French market, we tend to think about domestically driven demand. But actually there are a lot of companies, even mid-size ones, which are really internationally diversified, and for them clearly there is demand available from French investors.

If you talk about risk and premium, maybe some investors will politely say they disagree, and there is, still, a domestic preference, because you know the legal framework, which is local and makes you more comfortable in a certain way.

Unless you have resources locally to help, to deal with documentation in the local language and local law, it can be challenging for an investor to enter the market. A case of insolvency is different from one country to another.

In any case transactions are taking place and they are more subject to the overall market trend. However, competition from bank lending for certain maturities exists and naturally skewing the Euro PP for longer maturities.

Sébire, CMS Bureau Francis Lefebvre: Can I clarify that the choice of the governing law for the agreements has no impact on insolvency proceedings. If you're a Spanish company entering into an agreement governed by French law or English law, your insolvency proceedings will still be governed by Spanish law.

Borrowers can chose to submit their documentation to French law, English law or Belgian law — we see more and more Euro PPs governed by French law for issuers from Belgium, Spain or Luxembourg — but at the end of the day, the governing law is not that important. What is important is that issuers and investors find in the documentation the terms they need to do the trade. The documentation can be easily adapted, notwithstanding the governing law or its format, loan or bond.

Guerrida, UniCredit: There is also the intention of the issuer itself, in deciding the investor base to turn to. There are issuers who, in their strategy of financing, will say: 'I'm Italian but I'm very international in my operations: I want to do this Euro Private Placement with a non-domestic investor rather than staying with an Italian investor'. The issuer deliberately decides and defines his approach.

Sébire, CMS Bureau Francis Lefebvre: Also, the language of the documentation can sometimes be an issue for smaller companies.

Richard, Muzinich: And the tax environment can be an issue.

Trichet, Banque de France: In the context of the Capital Markets Union, this could be a new step for this market: the objectives of the CMU are to create deeper and more integrated capital markets so as to ensure efficient capital allocation and diversification in terms of countries. It broadens the opportunities for investment and funding for market participants and reinforces financial stability in case of local shocks.

: Yes, CMU is a very important point to raise. Do you think in five or 10 years' time we'll still be talking about individual national markets, or will we be talking about a pan-European private placement market?

Choussy, Eiffel Investments: We had a conference in London a month ago, and the key point was that the investors don't care about the documentation any more. What they want is to print: that was a significant step towards a pan-European market.

Shane, Morgan Stanley: I'd absolutely echo that. We're completely agnostic to documentation. It's the issuer and the investor and the economics and the covenants that are important: getting all those enshrined and having both sides comfortable. The documentation is the last piece that just wraps it up.

Sébire, CMS Bureau Francis Lefebvre: Another consideration is that Schuldschein and US PP documentation have been around for a long time and some kind of standardisation was achieved. Euro PP documentation, as we have discussed, is less standardised. It is not only a question of number of years of existence, it also reflects the fact that various credit profiles can tap the Euro PP market, with consequences on the documentation. For example, more constraints or the granting of security interests might be required from borrowers down the credit curve.

The standardisation of the Euro PP market may take some time, but hopefully we'll get there one day.

Trichet, Banque de France: What is important is that there is consistency among the different initiatives, at the European level, to provide a level playing field. And it's important to mention the market-led initiatives as well, for example by ICMA, building on the Euro PP Charter.

By Toby Fildes 20 Dec 2015