The European Banking Federation and International Primary Market Association

PRESS RELEASE

Prospectus Directive Agreement is Good First Step
Says Financial Services Industry

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An agreement was reached yesterday on the text of the new Prospectus Directive, when key groups in the European Parliament agreed to back the partial adoption of 21 amendments to the legal text agreed by the Finance Ministers of the Member States in March. The formal vote of the Parliament will take place next Wednesday, 2nd of July.

Finalisation of the Directive marks the success of a tremendous effort by the financial services industry to make its voice matter in the political process of structuring a "passporting" system (one that allows issuers to have a prospectus approved in one Member State and use it either to sell securities to investors, or to list the securities, in another Member State).

Despite their support for the Directive's objectives, issuers and financial intermediaries of a broad spectrum had expressed serious reservations about whether the proposal would achieve its goal of creating a globally competitive and integrated European capital market.

In the final text, the financial services industry notes with satisfaction that issuers of more than 90% of all bonds will have the right to determine where to file their prospectus, as they do today, and that debt issuance programmes, or Medium Term Notes (MTNs), a structure which is now used by 90% of international debt issues, will continue to operate.

However, while welcoming all these improvements, the industry still has some substantive concerns about the outcome: among others, the fact that the market in convertible bonds will be categorised as equity and subject to more stringent requirements than at present; the lack of harmonization in the definition of "qualified investor"; and high translation costs for cross-border issues. Some securitized derivatives under offering programmes will have to be discontinued to the detriment of investor choice. Furthermore, issuers will be exposed to an approval process that is not sufficiently transparent or predictable. These problems, if not rectified, could easily undermine the integration of the market and push issuers away from the European markets.

It is now up to the implementation of the Directive to ensure that it works in practice. The financial services industry therefore calls upon the European Commission to address immediately the legal inconsistencies in the Directive. The industry also calls upon the EU Council and the European Parliament to closely monitor the implementation of the Directive, as called for under the Lamfalussy process, so that potential problems may be addressed at an early stage in order to create an integrated European capital market serving the needs of its issuers and investors in the best possible way.