



Allen & Overy and Linklaters Dominate European CoCo Bond Market

PRESS RELEASE - Allen & Overy and Linklaters have dominated the European Additional Tier 1 "CoCo" bond market in the last two years with over 50% market share between them according to a report published today by DealFolio.NET.

The European Additional Tier 1 CoCo bond market for securities which can count as part of banks' tier 1 regulatory capital has developed with increasing acceptance of their unique risk-reward proposition. Last week, Allied Irish Banks placed EUR500m of these bonds with a 4x over-subscription despite their having a B- credit rating - one of the lowest seen in the market to date.

Additional Tier 1 CoCo bonds convert to equity or can be written-down in downside scenarios such as capital erosion or a regulatory judgement on the non-viability of the bank. These bonds were developed - with regulatory encouragement - as a response to the financial crisis to reduce the likelihood of unpopular state support for failing banks by creating a new type of bond which can be written-off to absorb losses.

In the last two years, most major European banks have issued Additional Tier 1 CoCo bonds with UK, Spanish and Italian banks leading the way. 2015 saw significant issuance by Dutch and Nordic banks as their regulators clarified the rules for these bonds. With issuance from higher rated Dutch and Nordic banks, average ratings are now higher than last year, with Fitch reporting that more than half are now investment grade.

The write-down model is now more prevalent as many fixed income investors cannot buy convertible bonds.

The report cites Pauline Lambert, a Director in the Financial Institutions Group at Scope Ratings, who expects further issuance as banks strive to meet capital requirements under new regulations and who notes increasing clarity for investors in terms of risk profile as the market starts to standardise.

Allen & Overy advised on the most bonds with the write-down mechanism (27% market share) including bonds issued by UniCredit, Swedbank, NyKredit, ABN AMRO, ING, KBC, Danske Bank and Rabobank. Linklaters (35% market share) advised on the most bonds with the conversion to equity model including issuances by Barclays, HSBC, Banco Santander, RBS, Lloyds Bank and BBVA.

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