

Loan Market Association

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One of the key challenges faced by the European syndicated loan market is the need to improve settlement efficiency which, in turn, will require increased automation in servicing/administration terms. One of the first essential steps in the automation process is the introduction of globally applicable loan identification numbers (ID numbers) to credit agreements, at both deal and facility/tranche level.

The benefits of ISINs are many and reach beyond improving secondary settlement times. In practical terms, what are these benefits that ID numbers promote?

The purpose of this paper is to answer key questions surrounding identifiers in the European syndicated loan market, setting out their benefits, as well as barriers to use.

Fundamentals

What are identifiers?

There are numerous numbering systems used in financial markets and this guide shall focus on ISIN/CUSIP¹ numbers, a commonly recognised global standard for syndicated loans, for which market-wide adoption is recommended.

ISIN/CUSIP numbers are used globally as identifiers for a wide range of financial products, such as bonds, warrants and equities, and are assigned to financial products to facilitate unambiguous clearing and settlement procedures.²

CUSIP numbers have been allocated to loan facilities in the US since 2004, and more recently ISINs have started to be allocated to European facilities.

A CUSIP number comprises a 9-alphanumeric code, which is unique to the related financial instrument and can be converted to an ISIN by the addition of a 2-letter prefix and a final "check digit." Typically, ISINs are allocated at the outset of a transaction by the facility agent.

What is an ISIN's purpose?

An ISIN's purpose is to identify the financial entity by associating it with its unique characteristics.

Through an ISIN, a bank has access to a single, primary source of data on a specific loan life cycle. This functionality has purpose in operations, compliance, risk reduction and facilitating technology. Furthermore, the ISIN will be interoperable between platforms and counterparties, enhancing communication within the syndicated loan market.

Why we need identifiers

Fig. 1

Deal level	Facility/Tranche level
Full legal name of the borrower ³	Type of facility/facilities
Borrower's country of domicile	Purpose of facility/facilities
Date of the facility agreement	Amounts of, and names of, the facility/facilities
Date of each amendment and restatement of the facility agreement	Currency/currencies of the facility/facilities
Legal jurisdiction of the agreement	Maturity of the facility/facilities
Currency/currencies of the facility/facilities	
Name of the agent bank	

How do you get an ISIN?

The facility agent will be responsible for requesting the issuance of an ISIN for a particular loan and its related facilities, and will be required to sign a mutually agreed contract with the service provider. The service provider would provide access to a secure online ISIN request portal for authorised persons within the facility bank. This process is the same for a lending bank in a bilateral deal.

ISINs are generated at both a deal level and facility/tranche level. Figure 1 details the information which needs to be supplied in relation to each.

This information is restricted to descriptive information about the deal to limit the risk of that information being unpublished price-sensitive or insider-information.

The Benefits

What efficiencies can ISIN numbers help promote?

The role ISINs can play in improving secondary settlement times is often the focal point when discussing efficiencies associated with ISINs. However, the benefits go far beyond this.

Adoption of ISINs at facility and tranche level provides benefits for all market participants and improves transparency by:

- providing an essential facility/tranche reference for use as automation is increasingly introduced in loan operations/settlement;
- enabling a more orderly exchange of information and compilation of reporting in an automated environment;
- facilitating the implementation of STP messaging as a replacement for fax messages;
- allowing parties to a loan agreement to exercise more effective and precise administrative control;



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- providing a common reference for facility agent messaging and related cash movements as well as vendor platforms;
- facilitating more efficient settlement allocation;
- allowing for more precise and instantaneous position reconciliation; and
- providing a focus for all related enquiries.

From a regulatory perspective, ISINs increase transparency, making it easier for regulators to supervise the loan market. Furthermore, there are indications that identifiers will be a regulatory requirement going forward. For example, the new European Central Bank asset reporting framework 'AnaCredit'⁴ requires the lead arranger to issue a uniform syndicated contract identifier for syndicated loans and to notify all the participating parties of this number. Adoption of ISINs will therefore likely offset any regulatory pressure in this area going forward.

Borrowers will benefit from the inclusion of ISINs in that increased automation will improve all-round efficiency in the administration of loan facilities; electronic messaging will improve the communication stream among syndicate members, particularly in terms of certainty of delivery/receipt; and improved efficiency across primary and secondary loan markets will encourage increased liquidity thus helping to attract new investors.

The benefits are therefore much broader than operational advantages, reaching to risk, compliance, portfolio management and technological growth.

Barriers to uptake

What is the current use of ISIN numbers in the European loan market?

It appears that banks are currently allocating ISINs on an ad-hoc basis, as opposed to cross market implementation. For example, ISINs are nearly exclusively being allocated to leveraged, rather than investment grade loans, with leveraged loans forming the majority of those loans traded on the secondary market.

However, as noted above, the benefits from ISINs are not limited to those associated with the secondary loan market, but go more to the heart of operating and administering the loan from its inception.

What are the key barriers to uptake of ISIN numbers in the European market?

A lack of understanding as to the purpose and benefits of identifiers appears to be the main barrier to uptake of ISINs in the European syndicated loan market.

Furthermore, the private nature of the European market raises concerns with confidentiality issues. While current forms

of LMA recommended facility agreements incorporate a clause which enables the facility agent to provide selected information to the numbering agency, institutions are advised to check with the confidentiality obligations within their own individual legal jurisdictions.

To address concerns of this nature, European ISINs are only provided to authorised recipients, being the lenders of record in the syndicate.

The Future

What role will ISINs play going forward?

Identification numbers are the core facilitator of exchanging loan data and will be a necessary component of technological evolution.

The use of recently introduced services, such as reconciliation platforms, e-messaging, electronic trading and cash-on-transfer/delivery-vs-payment applications all require ISINs. Therefore their adoption is a necessary requirement for maximising the benefit of technology going forward and will be particularly relevant for the widespread adoption of FpML and distributed ledger technology. Their benefits when it comes to regulatory reporting cannot be underestimated. ■

References

1. ISIN = International Securities Identification Number.
CUSIP = Committee on Uniform Security Identification Procedures.
2. Note that an ISIN identifies the financial product, not the exchange (if any) on which it trades; it is not a ticker symbol.
3. If more than one borrower exists under the facility then the chosen name should be the first one stated in the facility agreement.
4. The AnaCredit Manual can be found at:
www.ecb.europa.eu/stats/money_credit_banking/anacredit/html/index.en.html