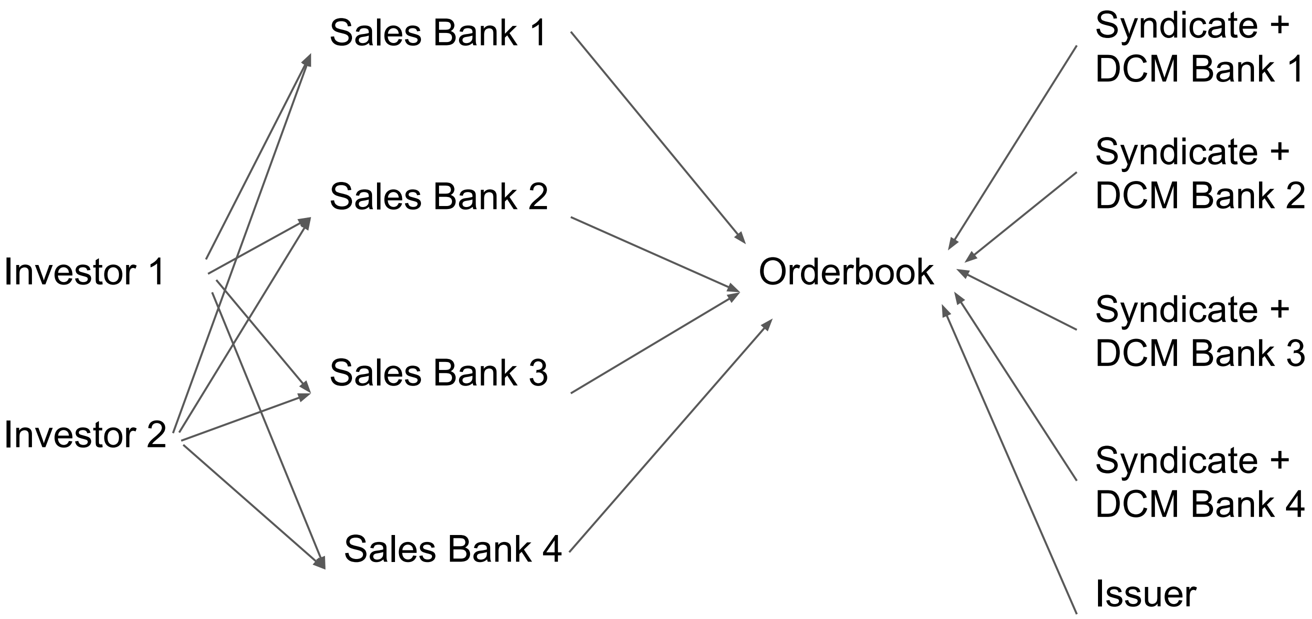
Bond Execution - Bookbuilding Process

Investor places order to sales

Sales introduce the order into the joint Orderbook

Syndicate, DCM and Issuer check the evolution of orders and make decisions based on them (size, pricing, timing of announcements)



N investors
(Normally 100-200)

Y Active Banks
(Normally 4-8)

Execution Problems in the Bookbuilding Process

1. Duplications of the same investor order, resulting in misleading total orderbook size on a given time point in time
    a. In practice this is hinted at the market by saying “Orders in excess of €Xbn” or “Orders of €Ybn pre-reconciliation”
    b. The market needs to be more transparent as some investors use these messages to decide whether to participate on a trade or not

2. Confusion on the investor classification both by type and by geography
    a. It is important to classify properly investors according to their type as their allocation normally depends on it (asset manager, insurance, pension fund, hedge fund, etc.)
    b. An investor can place an order from different fronts, i.e. a bank can introduce an order for its ALM, for its trading for its private banking clients, etc.
    c. An investor can be based in multiple locations so an institutional investor may be based in Switzerland but the order might come from the Portfolio Management in the UK. This might be a problem from an issuer since they want to know who bought the bonds

3. Delay between book closing and pricing
    a. Syndicates spend a lot of time to allocate the orders given point 2 and in times of volatility pricing should occur asap as underlying rates move

DLT Potential

1. Provide a permissioned ledger and give investors access to the book so the order is placed by them directly

2. Provide unique investors ID so there is no error on the investor classification according to geography or type

3. With better data → better decision making → better results