



## Guidelines

### Issuance of Convertible Debt Securities – Public Companies

#### **1. What is a Convertible Debt Security?**

A convertible debt security is a fixed-income security that yields interest payments, but can be converted into a predetermined number of equity shares at future point in time.

#### **2. What is for investors?**

Investors in convertible debt securities (CDS) can benefit from a steady income stream and repayment of principal at maturity, while retaining the option to share in potentially higher equity values. The bond-like characteristics of convertible debt securities provide downside price support i.e. investor will receive the full investment at maturity and coupon/interest/profit payments (if any) at regular interval, while embedded equity option provides upside potential i.e. if conversion into equity share is exercised.

Under normal market conditions, convertible securities provide investors with a risk profile similar to that of similarly rated non-convertible debt securities and returns comparable to those of equities.

#### **3. What is convertibility feature?**

The convertibility feature allows the investor(s) to convert debt securities into predetermined number of equity shares at some future date. The conversion from debt security to share(s) can be done at certain times during the instrument's life and is usually at the discretion of the security holder/investor.

#### **4. Opportunity for issuing companies?**

Convertible debt securities typically pay a lower coupon than traditional fixed income instruments due to the value of attached equity option.

In times of high economic distress, companies prefer to issue convertible debt securities due to low cost. The same fact is evident from surge in global convertible issuance in wake of COVID-19 outbreak. Approximately \$92 billion of convertible securities have been issued in first half of calendar year 2020 (highest first-half total on record). The convertible debt securities provide both issuer(s) and investor(s) a unique hybrid debt-and-equity solution in today's uncertain economic and market environment.



## 5. **Global Prospective.**

The market size of convertible debt securities is over \$380 billion. US companies represent approximately two-third of the convertible universe, with rest of the market represented by issuers in Europe (16%), Japan (5%) and Asia ex-Japan (11%; mostly China). Convertible issuers include high-growth technology and pharmaceutical corporations, as well as established industrial conglomerates.

As a reference point offering document(s) of convertible debt securities issued by Bank Islami Pakistan Limited and Adecco Financial Services (Bermuda) Ltd can also be accessed through:

<https://bankislami.com.pk/wp-content/uploads/2020/04/BIHad-Sukuk-Prospectus.pdf>

<https://www.sec.gov/Archives/edgar/data/931496/000119312503042527/d6k.htm>

## 6. **Can a convertible debt security be issued in Pakistan?**

In Pakistan, any company except a single member company and company not having share capital is allowed to issue convertible debt security(ies). Different structures and types of convertible debt securities can be issued under the applicable Regulatory framework.

### **Few structures of convertible debt Securities are stipulated below:**

- a) Fully convertible debt security – at the discretion of Investor
- b) Fully convertible debt security – at the discretion of Issuer
- c) Partially convertible debt security – at the discretion of Investor
- d) Partially convertible debt security – at the discretion of Issuer
- e) Mandatory convertible debt security

Both secured and unsecured CDS can be issued for any of the structure described above.

## 7. **Regulatory framework for Issuance of convertible debt securities in Pakistan:**

Issuance of convertible debt securities in Pakistan is governed through following laws:

- a) Section 66 & Section 83 of the Companies Act, 2017. (Deals with both Public Offering and Private Placement)
- b) Private Placement Rules, 2017. (Deals with only Private Placement)
- c) Sukuk (privately placed) Regulations, 2017. (Deals with only Private Placement)



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- d) Notification under section 66 of the Companies Act, 2017. (Deals with only Private Placement)
- e) Structuring of Debt Securities Regulations, 2020 (Deals with structuring of debt securities under both Private Placement and Public Offering.)
- f) Public Offering Regulations, 2017. (Deals with only Public Offering)

The aforesaid Rules/Regulations/Notifications are available on SECP's website and can be accessed through:

<https://www.secp.gov.pk/laws/acts/>.

**8. Steps for issuance of convertible debt securities in Pakistan:**

Convertible debt securities can be issued through both private placement and public offering mode. (only a public Limited company can issue convertible debt securities through public offering)

**Steps involved in Private Placement:**

- i. Requisite approval under section 83 of the Companies Act, 2017 for further issue of share capital in relation to Issuance of CDS. (Since conversion of CDS into shares would enhance the share capital of the Company, therefore approval of section 83 (1) b is required, whereby a public Limited company can enhance share capital by the way of other than right offer through special resolution and Commission's approval.
- ii. Structuring of CDS as per the Structuring of Debt Securities Regulations, 2020. As per the said Regulations, the Issuer can issue the CDS either through execution of Issuance agreement or Trust Deed. Provisions relating to Trust Deed and Issuance agreement are specified at regulation 11 and 15 of the Structuring of Debt Securities Regulations, 2020, respectively.
- iii. Appointment of Investment agent or Debt Securities Trustee depending upon the structure opted by the Issuer. (Investment agent is required in case of Issuance agreement and Debt Securities Trustee in case of Trust structure.)

Entity holding a valid Consultant to the Issue license can act as Investment Agent, list of licensed Consultant to the Issue and Debt Securities Trustee is available at SECP's website and can be accessed through:

<https://www.secp.gov.pk/data-and-statistics/capital-markets/>

- iv. Drafting of Information memorandum by the Issuer for private placement. (Content of Information memorandum is prescribed in the Private Placement Rules, 2017)



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- v. After complying with aforesaid requirements, Issuer can directly place convertible debt securities to the eligible investors as per Private Placement Rules, 2017. Only eligible investors can invest in privately placed convertible debt securities. (Eligible investors are specified by Commission vide SRO dated April 19, 2021 under section 66 of the Companies Act, 2017).
- vi. No regulatory approval is required for placement of CDS. (Since, the issue is privately placed and general public is not involved, therefore PSX and SECP approval is not required)
- vii. After placement, Issuer can list the CDS at Pakistan Stock Exchange as per Chapter 5C of the PSX Rule Book. (Listing requirements are specified in Chapter 5C).
- viii. Subsequent to listing, only eligible investors notified by the Commission can invest in these securities in secondary debt market.
- ix. Secondary market trading of privately placed listed debt securities is visible at BNB trading board of PSX and can be accessed through:

<https://dps.psx.com.pk/trading-panel>

**Steps involved in Public Offering:**

- i. Appointment of Consultant to the Issue (CTI), Underwriter(s) and Share Registrar by the Issuer as per Public Offering Regulations, 2017.

List of licensed Consultant to the Issue, Underwriters and Share Registrars is available at SECP's website and can be accessed through:

<https://www.secp.gov.pk/data-and-statistics/capital-markets/>

**(Role of Consultant to the Issue** is to (i) draft listing application, prospectus and related documents; (ii) seek approval of PSX and SECP on the behalf of the Issuer; (iii) ensure publication of prospectus in accordance with relevant law; (iv) conduct roadshows to sell the issue; (v) guide issuer throughout the public offering process etc.

**(Role of Underwriter:** Underwriter provides commitment to subscribe the unsubscribed portion of the issue. Underwriting helps the Issuer to get desired amount of the funds required for the implementation of the Project, which the Issuer would not be able to get in case of undersubscription of securities. Moreover, underwriting provides

confidence to the investors that an independent third party has conducted proper due-diligence of the issue including the price before underwriting the issue.)

- ii. Structuring of CDS as per the Structuring of Debt Securities Regulations, 2020. As per the said Regulations, the Issuer can issue the CDS either through execution of Issuance agreement or Trust Deed. Provisions relating to Trust Deed and Issuance agreement are specified at regulation 11 and 15 of the Structuring of Debt Securities Regulations, 2020, respectively.
- iii. Appointment of Investment agent or Debt Securities Trustee depending upon the structure opted by the Issuer. (Investment agent is required in case of Issuance agreement and Debt Securities Trustee in case of Trust structure.)

Entity holding a valid Consultant to the Issue license can act as Investment Agent, list of licensed Consultant to the Issue and Debt Securities Trustee is available at SECP's website and can be accessed through:

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- iv. Preparation of Prospectus and listing documents by the CTI. (Content of Prospectus is prescribed in First Schedule of the Public Offering Regulations, 2017)
- v. Submission of listing documents along with the prospectus to the PSX for approval. (Listing documents are specified at Annexure -I of Chapter 5B of the PSX rule book)

PSX rule book can be accessed through:

[https://www.psx.com.pk/psx/themes/psx/uploads/PSX Rulebook %28updated on March 31%2C 2021%29.pdf](https://www.psx.com.pk/psx/themes/psx/uploads/PSX_Rulebook_%28updated_on_March_31%2C_2021%29.pdf)

- vi. Approval under section 83 of the Companies Act, 2017 for further issue of share capital. Since Conversion of CDS into shares would enhance the share capital of the Company, therefore approval of section 83 (1) b is required, whereby a public Limited company can enhance share capital by the way of other than right offer through special resolution and Commission's approval. (It is advisable to obtain approval(s) after structuring of the CDS, however approval can be obtained before placement)
- vii. Placement of prospectus by PSX on its website for seeking public comments. (seven working days)
- viii. Pursuant to PSX approval, submission of prospectus to the Commission for approval under section 87 (2) read with section 88(1) of the Securities Act, 2015.
- ix. Subsequent to Commission approval, seeking dates from PSX for publication of prospectus and public subscription. (To save cost, abridged version of prospectus can be published)

- x. Prospectus has to be published in at least one English Newspaper and Urdu version of the prospectus in at least one Urdu Newspaper.
- xi. Prospectus has to be published not less than seven days and not more than thirty days before the commencement of the subscription period.
- xii. Publication of prospectus after obtaining dates from PSX.
- xiii. Placement of CDS to the general public during the public subscription period.
- xiv. Listing of CDS at Pakistan Stock Exchange as per Chapter 5B of the PSX Rule book (Listing requirements are specified in Chapter 5B).
- xv. Subsequent to listing, general public including both institutional and individual investors can invest in these securities in secondary debt market.
- xvi. Secondary market trading of publicly listed debt securities is visible at BNB trading board of PSX and can be accessed through:

<https://dps.psx.com.pk/trading-panel>

Specific conditions for public offering of convertible debt securities are specified at **regulation 13 and 15 of Public Offering Regulations, 2017. (Annexure-A)**

**9. Term sheet for Convertible Debt Securities:**

Minimum content for term sheet of convertible debt securities:

S.No.	Minimum Content for Term Sheet of Convertible Debt Securities
1.	Name of Issuer
2.	Salient features of Issue
3.	Issue size
4.	Issue title/name
5.	Issuer rating/instrument rating
6.	Tenor
7.	Principal Redemption
8.	Purpose
9.	Profit Rate
10.	For secured Instruments, only: Details of security backing the CDS.
11.	Conversion event
12.	Conversion price/conversion ratio



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13.	Call option (if any): Call option gives the issuer right to “call” or buy back its debt securities prior to maturity.
14.	Put option (if any): Put option gives the security holder right to demand the issuer to pay back the principal and accrued interest, if any before the maturity
15.	Cumulative/non-cumulative feature: <b>Noncumulative</b> feature does not entitle investors to reap any missed interest payment, however, " <b>cumulative</b> " feature entitles an investor to receive missed interest payments
16.	Type of Structure (Issuance agreement or Trust structure)
17.	Face Value
18.	Issue Price
19.	Eligible Investors
20.	Name of Intermediaries

**10. Local Market Stats:**

As per the available data, following companies have issued convertible debt securities in Pakistan over the last three to four years:

S.No.	Name of Issuer	Year of Issue	Type of Instrument	Listed/Unlisted	Size (in Rs.)	Convertibility feature
1.	Bank Islami Limited	2020	Tier I	<b>Publicly Listed</b>	2 billion	Yes
2.	Al Baraka Bank	2018	Tier I	Privately Placed Unlisted	1.4 billion	Yes
3.	JS Bank Limited	2018	Tier I	<b>Privately placed Listed</b>	2.5 billion	Yes
4.	Soneri Bank Limited	2018	Tier I	<b>Publicly Listed</b>	4 billion	Yes
5.	Meezan Bank Limited	2018	Tier I	Privately Placed Unlisted	7 billion	Yes
6.	Dubai Islamic Bank	2018	Tier I	Privately Placed Unlisted	3.12 billion	Yes
7.	Habib Bank Limited	2019	Tier I	<b>Privately placed Listed</b>	12.374 billion	Yes
8.	United Bank Limited	2019	Tier I	<b>Publicly Listed</b>	10 billion	Yes



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9.	Bank Al Habib	2017	Tier I	Privately Placed Unlisted	7 billion	Yes
10.	Askari Bank Limited	2018	Tier I	<b>Privately placed Listed</b>	6 billion	Yes
11.	Askari Bank Limited	2020	-	<b>Privately placed Listed</b>	6 billion	Yes
12.	JS bank Limited	2019	Tier II	<b>Privately placed Listed</b>	2 billion	Yes
13.	Bank Alfalah	2018	Tier I	<b>Publicly Listed</b>	7 billion	Yes
14.	Dubai Islami Bank	2017	Tier II	Privately Placed Unlisted	4 billion	Yes
15.	Al-baraka Bank	2017	Tier II	Privately Placed Unlisted	1.5 billion	Yes
16.	Meezan Bank	2016	Tier II	Privately Placed Unlisted	7 billion	Yes
17.	Meezan Bank	2019	Tier II	Privately Placed Unlisted	4 billion	Yes
18.	Airlink Communication Limited	2019	Convertible TFCs	Privately Placed Unlisted	0.8 billion	Yes
	<b>Total</b>				<b>87.694 billion</b>	

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