CERTAIN FINANCIAL REPORTING AND REGULATORY CONSIDERATIONS FOR BOND ISSUERS

What are the main types?

High Yield Bonds (HYB)

High yield securities, with fixed or floating rate interest or dividend bearing obligations of an issuer rated below Baa/BBB by Moody's and S&P, respectively. These bonds are often marketed or sold to US investors under Rule 144a, and carry higher interest rates than traditional debt instruments.

Sukuk

An Islamic financial certificate, similar to a bond, but compliant with Sharia - Islamic religious law. The issuer of a sukuk sells a certificate to an investor group, and then uses the proceeds to purchase an asset, of which the investor group has a certain percentage of ownership. Subsequently, the earnings generated by the purchased assets are proportionally distributed to sukuk investors.

Euro Medium-Term Notes (EMTN)

Generally medium-term flexible debt instruments, that are traded and issued outside of the United States and Canada. The notes can be offered continuously, instead of all at once. Further, the issuers must maintain a standardised document (the "Programme"), which can be transferred across all issues and has a great proportion of sales through a syndication of pre-selected buyers.

What are their benefits?

High Yield Bonds (HYB)

Provide corporate entities with credit ratings below investment grade, access to debt markets. However, to compensate for the higher credit risk, they generally offer greater yields than government bonds and many investment grade corporate bonds. HYBs have shorter maturities than traditional bonds, providing investors with the opportunity to rapidly recoup their principal investment.

Sukuk

Represent an investment opportunity for investors seeking only Sharia-compliant debt instruments. The majority of sukuk structures are asset-based rather than asset-backed. In an asset-based structure, investors rely on the credit quality of the debtor to fulfill its payment obligations, while in an asset-backed structure, investors rely on recourse to the underlying assets as the profit return and return of capital are based on the asset itself.

Euro Medium-Term Notes (EMTN)

Generally offer more diversity and flexibility than traditional bonds. It can be issued in various currencies, sizes and maturities (normally five years), along with competitive underwriting costs. Once established, an EMTN

programme offers the issuer the opportunity to drawdown from the programmes whenever funds are needed. EMTNs are offered on a continuous basis, whereas traditional bonds occur at a point in time.

Global debt markets

2017 witnessed robust activity for global debt markets, despite geopolitical uncertainty and fiscal policy headwinds. Borrowers were relatively active across global debt markets, benefiting from favourable economic fundamentals, such as low interest rates, high liquidity, tolerable levels of volatility and monetary inflation.

Looking ahead, 2018 is set to be a busy year, as market participants try to stay ahead of potential interest rate hikes by the US Federal Reserves and the European Central Bank's gradual tapering of its ongoing quantitative easing programme.

At the moment, the markets remain resilient against geopolitical uncertainties and monetary policy changes. However, we are starting to see a surge in both volatility and inflation levels, which in the long run could translate into an increase in debtors borrowing costs and credit default risk.

- **Highlights of major global debt transactions in 2017**

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- **USD 22.5 billion**
- **AT&T issued one of the biggest international bonds during 2017.**
- **USD 10.7 billion**
- **France's sovereign green bond programme was one of the largest green bonds issued in 2017.**
- **USD 9 billion**
- **The Kingdom of Saudi Arabia issued the world's largest ever sukuk.**
- **GCC debt markets**

GCC fixed income issuances have surged in 2017, with sovereign debtors accounting for the lion's share, followed by corporates. This activity has been propelled by strong interest from regional and international investors, and cemented by a stable credit outlook.

We anticipate debt markets will remain active in 2018, although the recent rally in oil prices has eased short-term liquidity pressure. Despite this, GCC governments continue to rely on sovereign issuances to curb their budget deficit and fund their growth plans. The concern remains however, as to whether the potential oversupply in the debt market could result in an increase in the cost of borrowing in the GCC region and put a downward pressure on credit quality.

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Highlights of major GCC debt transactions in 2017

USD 12.5 billion

The Kingdom of Saudi Arabia issued one of the most significant sovereign international bonds in the GCC.

USD 2.3 billion

Dubai Aerospace Enterprise Ltd issued one of the largest corporate bonds by a GCC based entity in 2017.

USD 1.25 billion

The Islamic Development Bank issued one of the largest corporate sukuk by a GCC based entity in 2017.

Spotlight on US high-yield bond activity by global issuers

Although the recent increase in public bond activity has been witnessed across all types of bonds, a particularly strong market performance was seen from high-yield bonds in 2017, with investors looking for medium risk investment returns, between high risk equity investments and low risk

investment grade debt instruments. Whilst high-yield bonds were popular amongst non-US investors, the majority of high-yield bond activity occurred in the US, which had its strongest year since 2014.

2017 was the strongest year in the US high-yield debt markets since 2014, reversing a downward trend with 511 deals raising USD 277 billion, representing an increase in activity from 2016.

The US high-yield market was primarily driven by companies seeking to refinance, resulting in two thirds of activity and dollar value raised this year used for refinancing.