FSMA

FINANCIAL SERVICES AND MARKETS AUTHORITY

Press release

THE FSMA WARNS AGAINST ISSUES OF CONVERTIBLE BONDS BY COMPANIES IN NEED OF FINANCING

Listed companies in financial difficulty are increasingly issuing convertible bonds in order to meet their financing needs. The Financial Services and Markets Authority (FSMA) warns shareholders of such companies of the major risk such issuances entail for them.

A convertible bond offers the holder the right to convert the bond into shares. The conversion occurs at a conversion price set in advance. Usually, the conversion price will be higher than the market price of the issuing company at the time the convertible bond is issued.

However, the conversion price is in some cases lower than the market price at the time of conversion. It is in that case that this type of financing entails significant risks for shareholders. The conversion into shares then often results in significant dilution. Moreover, it can also create strong downward pressure on the share price.

The FSMA has identified 9 companies under its supervision that rely on such convertible bonds to meet their financing needs. The majority of these issuers are biotech or medtech companies.

Parties who offer this type of financing are chiefly foreign investment funds that specialize in this type of transaction. In exchange for their financing, they receive high fees and an attractive conversion price. They can convert their bonds into shares at a discount from market value at the time of conversion.

The discounts are usually around 5 to 8% but can in some cases reach 20%. As soon as the conversion has taken place, the investment funds sell the shares on the stock exchange. Most do not intend to become shareholders of the company.

The FSMA wishes to draw investors' attention to the risks associated with this type of financing. It recommends that they take note of the relevant information made available by issuers. This will enable them to better assess the risks of downward pressure on the share price and of significant dilution, and to raise critical questions at the general meeting of shareholders regarding this type of financing.

The FSMA asks listed companies and their directors to think carefully before they issue these sorts of convertible bonds and to be aware of the responsibility they are assuming by doing so. Providers of this type of financing must be especially careful not to engage in market manipulation when selling the shares.

More information on this topic can be found in this communication on the website of the FSMA.

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