

Sponsored: An Option for Streamlined Settlement of Private Placement Bonds

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In conjunction with capital raises for a fund, sponsors may also issue bonds to the investors. In this situation, sponsors need a trustee and/or paying agent and an approach for settling the private placement bonds themselves.

We may already be serving as escrow agent for the offering, and sponsors may seek additional services from us since we are already familiar with the offering. Sponsors are often surprised and pleased to learn about a streamlined option for settling the securities transaction.

Specifically, it's possible in many cases for us to place the newly issued securities directly on the Depository Trust



Company (DTC) platform and settle the transaction when the sponsor is ready to actually issue the bonds. Placing the securities on the DTC Platform provides an easy way for bondholders to trade and transfer their securities.

How it works

Our upfront role as settlement agent includes obtaining CUSIP numbers, if needed, setting up securities on the DTC platform, completing and submitting to DTC a securities eligibility questionnaire, and coordinating delivery of required documents.

Then, on the closing day, the purchaser typically wires funds to the issuer and instructs its DTC participant to post a one-sided DWAC deposit using DTC's deposit / withdrawal platform.

Once the issuer confirms receipt of funds, the settlement agent coordinates with the issuer's transfer agent (typically UMB) to confirm the DWAC transaction.

At that time, the purchaser's custodial agent will receive the book-entry security versus the previous cash outlay.

In some cases, an even more streamlined approach may be appropriate, in which no wire transfers are necessary.

In this scenario, the settlement agent takes delivery of the securities into the issuer's UMB account and then re-delivers them to the DTC trading "window" of the investor's custodial agent via its standard delivery instructions for book-entry securities.

The investor's custodial agent is on notice to anticipate the securities delivery for immediate same-day payment, which are then transferred by way of DTC book entries—eliminating the need for a cash wire transfer.

Regardless of the specific settlement details, the settlement agent works with DTC and the issuer to complete the delivery of the securities.

Potential benefits to issuers

The primary benefits are cost and time savings versus other approaches to establishing book-entry securities with DTC.

We are often able to further amplify those savings because of our familiarity with an offering due to serving as escrow agent and potential additional roles as trustee, paying agent and/or collateral agent for the underlying securities going forward.

About UMB

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