

The background of the slide is a composite image. On the left, there are several overlapping financial charts, including candlestick charts and a line graph with a shaded area. On the right, there is a stack of Euro coins, with a candlestick chart overlaid on them. The overall color palette is muted, with greys, blues, and oranges.

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**CAPITAL MARKETS
KNOW-HOW SERIES**

COLLATERALIZED MTN PROGRAMS

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AGENDA

1. Introduction to Collateralized MTN Programs
2. Typical Structures
3. Structural Variations
4. Key Legal Considerations
5. Benefits and Risks of Collateralized MTN Programs



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INTRODUCTION TO COLLATERALIZED MTN PROGRAMS



MTN (MEDIUM TERM NOTES) PROGRAMS

- Medium-Term Notes (MTNs) programs are debt issuance programs, typically with maturities ranging from two to ten years (and longer).
- Time efficient manner to issue bonds, widely used by financial institutions, corporates, and sovereigns.
- Based on a program/dealer agreement with unlimited duration and accompanying contractual documents, like Issuing and Paying Agency Agreements.
- In the EU, most MTN Programs use a Base Prospectus regulated by the EU Prospectus Regulation, valid for one year.
- After each year, a so-called Update occurs based on a newly approved Base Prospectus and, usually, amended and (often) restated program documents.





WHAT IS A COLLATERALIZED MTN PROGRAM?

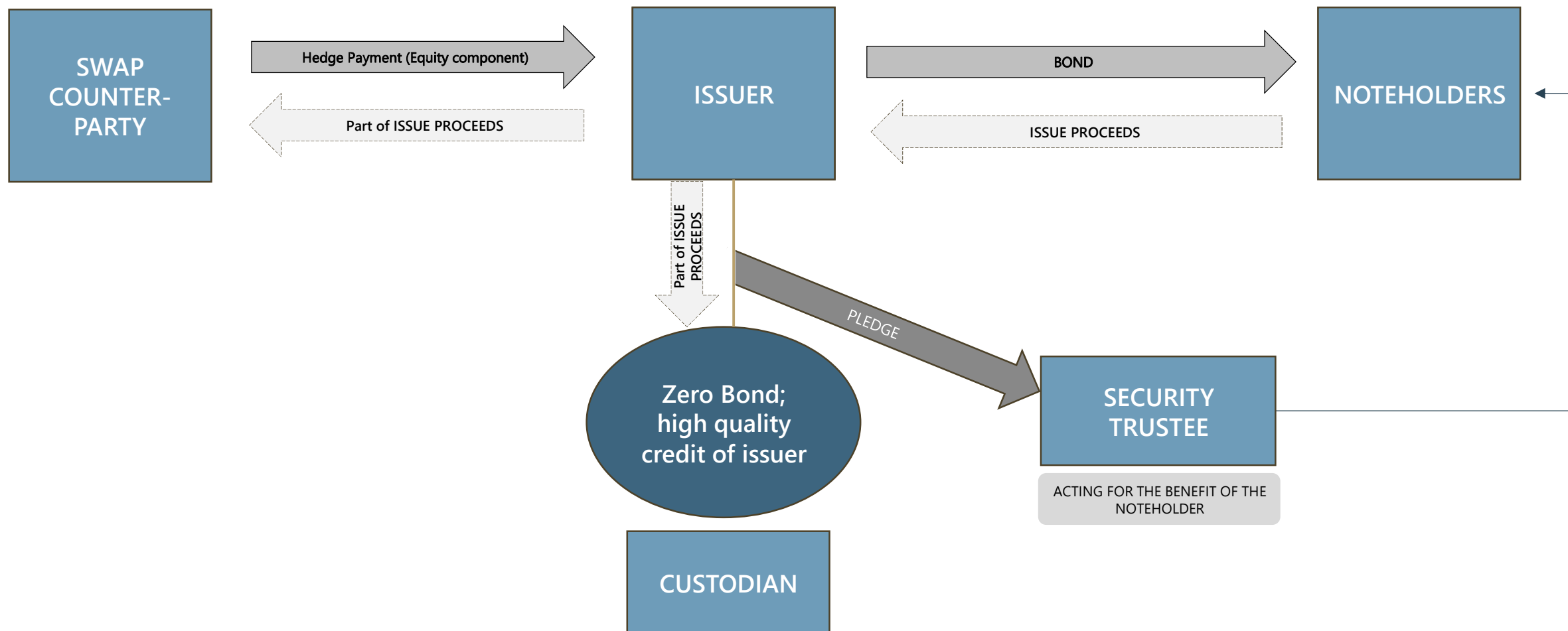
- MTN program with an additional collateral layer to mitigate the credit risk of the issuer; intended to be a supplemental issuance program next to MTN programs
- Credit risk of issuer is “replaced” by credit risk of the collateral pool; double recourse (collateral and insolvency estate of issuer; no limited recourse to collateral only)
- Collateralized MTNs are to be distinguished from:
 - Guaranteed MTNs
 - (regulated) Covered Bond Issuance programs or German Pfandbriefe based on certain statutory law protections in an issuer insolvency (e.g. statutory segregation of assets), e.g. EU covered bond directive
 - Repackagings and asset backed securities using a special purpose vehicle as issuance company (treasury vs. risk transfer purposes).



COLLATERALIZED STRUCTURED PRODUCTS

- Collateralization is typical for certain ETP/ETN/ETC segments of exchanges
- Often used for commodity or crypto linked structured products using the underlying as collateral
- Collateralization is often based on periodic and value based margin-adjustments (see below)
- Alternatives: Structured products platforms using SPVs (repackaging)

CLASSIC RETAIL PACK STRUCTURE IN GERMANY:

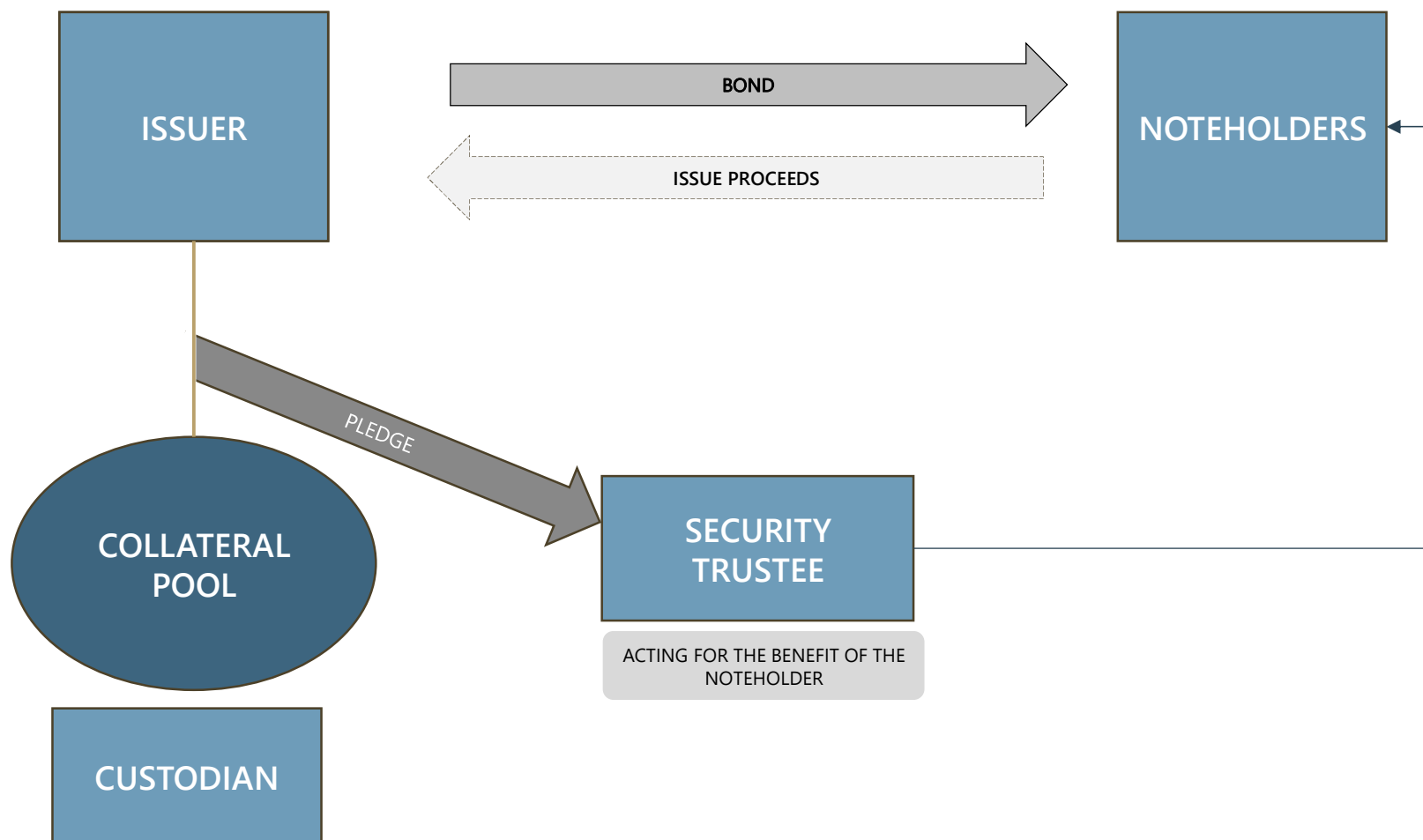


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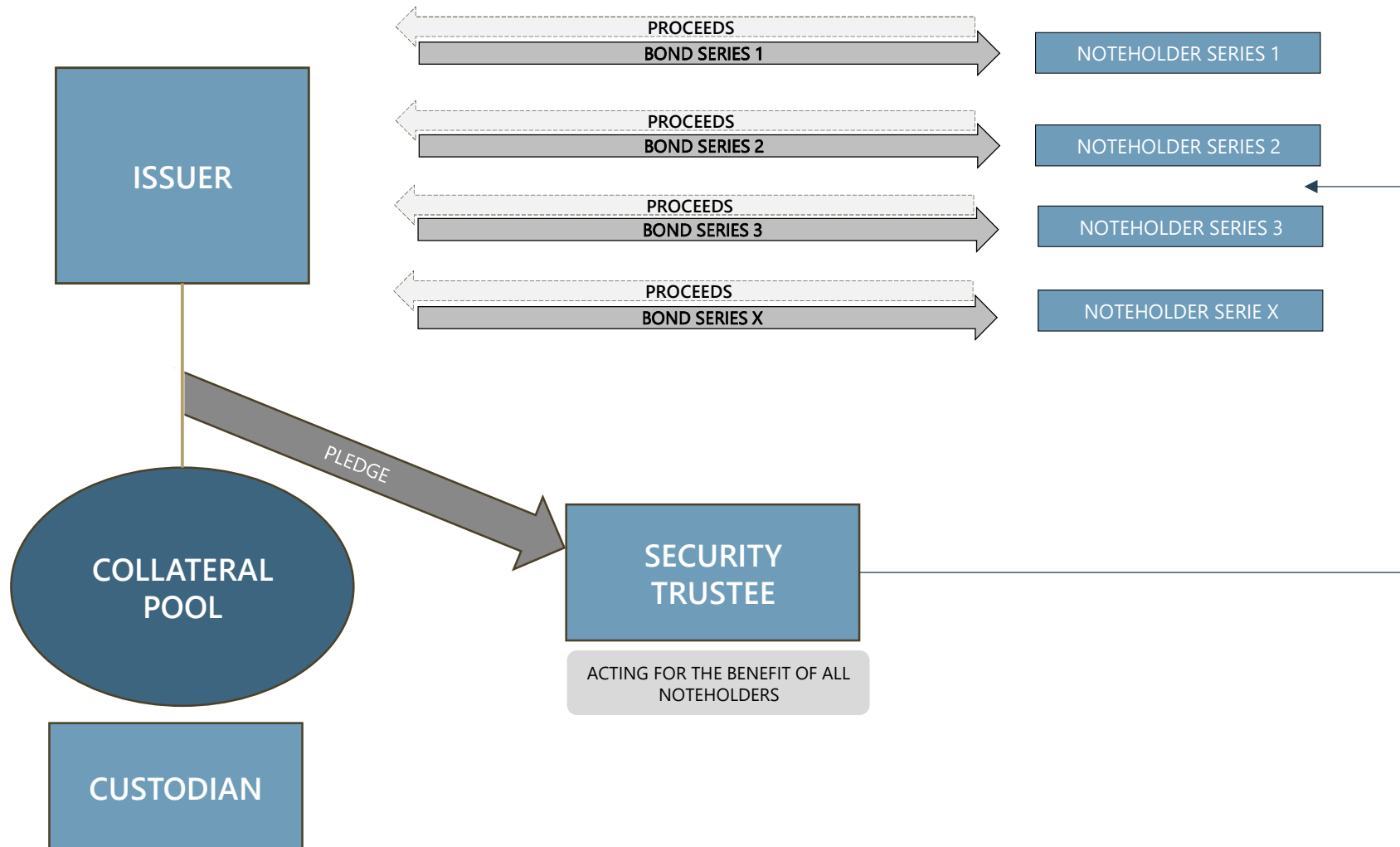
TYPICAL STRUCTURES OF COLLATERALIZED MTN PROGRAMS



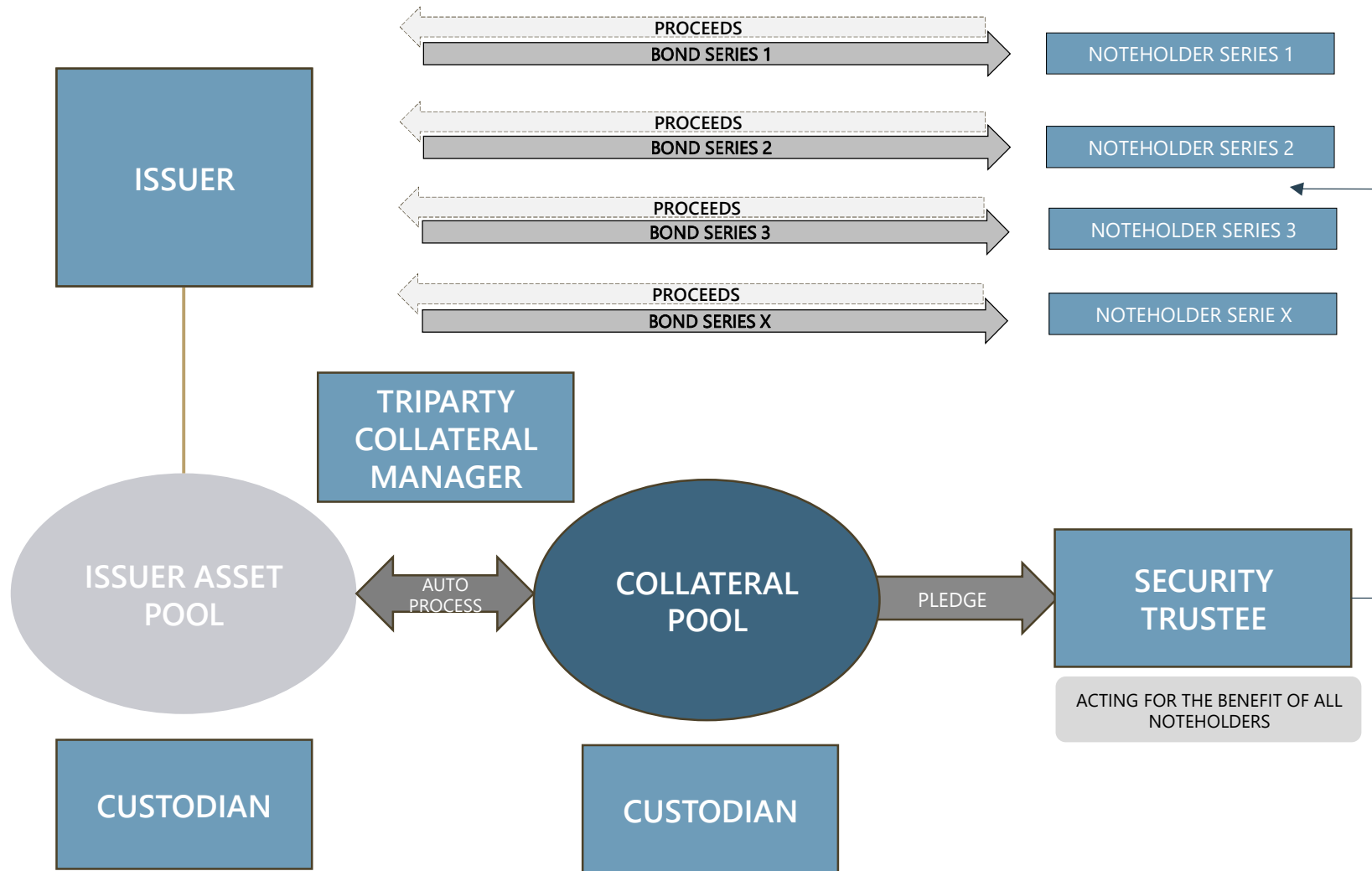
BASIC STRUCTURE I: SINGLE SERIES COLLATERALIZATION



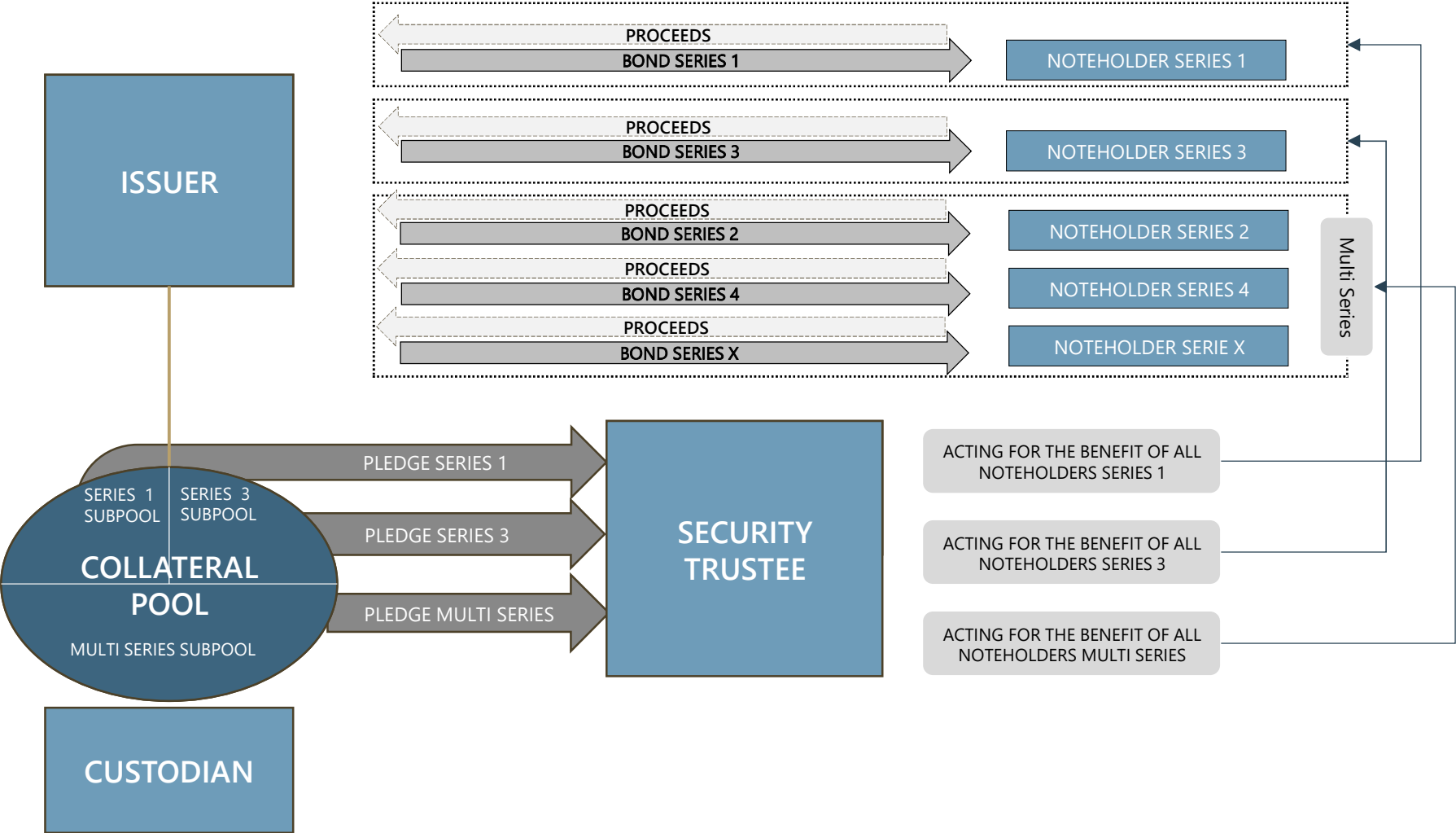
BASIC STRUCTURE II: MULTI SERIES COLLATERALIZATION



BASIC STRUCTURE III: TRIPARTY AGENCY COLLATERAL STRUCTURE



BASIC STRUCTURE IV: COMBINATION COLLATERAL STRUCTURE



TYPICAL STRUCTURES OF COLLATERALIZED MTN PROGRAMS

Triparty Collateral Management

- Issuer uses the systems of a Triparty Collateral Manager to adjust the collateral pool
- Triparty Collateral Management system usually involves security taker and security giver who both accede to the terms and conditions of the Triparty Collateral Manager (often used for Repos, Initial Margin under EMIR but also for structured products issuance platforms)
 - For example TCM offering by SIX in Switzerland or Euroclear in Belgium
 - In case of SIX TCM, Security Agent Trustee is a party to the TCM Security Agreement
- Services of TCM can include:
 - Valuation of exposure (value of the issued bonds)
 - Valuation of the collateral pool
 - Periodical adjustment of collateral pool (automated process without involvement of issuer) by transferring collateral assets between the collateral account and the proprietary account of the issuer
 - Applies substitution in case of redemptions or corporate actions



A background image on the left side of the slide featuring a financial candlestick chart with a red-to-white color gradient. Overlaid on the chart is a semi-transparent blue line graph with a prominent peak and a dashed vertical line. The overall aesthetic is modern and data-driven.

TYPICAL STRUCTURES OF COLLATERALIZED MTN PROGRAMS

Involved parties

- **Issuer:** issues the notes and provides the collateral.
- **Noteholders:** end investor of the Notes.
- **Arranger/Dealer:** Structures the program, manages the issuance process, and distributes the notes to investors.
- **Collateral Pool Custodian:** opens and maintains the accounts on which the collateral assets will be transferred from the general estate of the issuer and pledged to the Security Agent/Trustee.
- **Security Agent/Trustee:** Holds the collateral on behalf of investors, monitors compliance, and enforces rights if a default occurs.
- **Paying Agents:** distributes payments to the noteholders via the clearing system, including any enforcement proceeds from the enforcement of collateral.
- **Selling Agents:** can be involved in the enforcement process by the Security Agent/Trustee.

A complex financial chart background featuring a candlestick price chart, a moving average line, and a volume bar chart at the bottom. The chart is overlaid with a grid and a semi-transparent mountain-like shape in the upper left.

TYPICAL STRUCTURES OF COLLATERALIZED MTN PROGRAMS

Types of Collateral

- Sovereign Bonds
- Corporate Bonds
- Equities (high price volatility)
- Other assets like Gold (rarely used) or the Underlying in case of ETPs/ETNs/ETCs
- But no Cash collateral given the funding purpose of MTN

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STRUCTURAL ASPECTS



COLLATERALIZATION PRINCIPLES - BASIS OF DETERMINING THE COLLATERALIZATION AMOUNT

- Nominal Amount based collateralization
 - Does in theory not require collateral adjustment if collateralization pool structure is also based on nominal amounts (1:1 identical units based collateralization)
 - Collateral adjustment could be required in case of a value based collateralization pool
- Market Value based collateralization:
 - requires margin adjustment over the term of the notes if market value of the notes or the collateral pool drops
 - release of collateral in case of overcollateralization
- Overcollateralisation principles at issuance and the duration of the notes
 - dependent on type of collateral and potential value decreases in case of an issuer default
 - dependent also on local law restrictions on overcollateralisation
- Dynamic / managed collateral pools
 - Requires management principles, list of eligible collaterals
- Haircuts / concentration risks / avoidance of wrong way risks

COLLATERALIZATION PRINCIPLES - SUBSTITUTIONS PRINCIPLES AND CORPORATE ACTIONS HANDLING

- Corporate Action handling
 - Voting rights
 - Distributions (covered by collateral or not)
 - merger / delisting / squeeze out
 - Requirements and rules of Triparty Collateral Manager System
- Substitutions might be required within the Collateral Pool during the term of the Notes, for example in case of
 - redemptions / terminations of collateral assets
 - specific corporate actions requiring substitutions
 - Volatility or liquidity issues if volatility/liquidity triggers are used
 - credit deterioration protection? Implicit credit linkage

COLLATERALIZATION PRINCIPLES - SUBSTITUTIONS PRINCIPLES AND CORPORATE ACTIONS HANDLING

- Events of Defaults and Enforcement Trigger rights
 - Event of Default and timelines; notice requirements
 - thresholds for triggering enforcement processes
- Enforcement efficiency
 - Timely enforcement by using predetermined enforcement steps, selling principles and selling agents;
 - How to avoid delays by collateral agents/security trustees (less determinations/discretions; automation)
 - Also dependent on types of collateral and liquidity aspects
 - Use of a longstop date to avoid unlimited delays
 - Delivery of (deliverable) collateral to holders instead?
 - Instruction rights or interference rights of holders possible?
- Distribution of enforcement proceeds
 - pari passu within the relevant series(s) protected by the relevant collateral pool, less costs and fees of involved parties

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KEY LEGAL CONSIDERATIONS



CORE DOCUMENTATION

- Programme/Dealer Agreement
- Prospectus or Information Memorandum
- Issuance and Paying Agency Agreement / Trust Deed
- Custodian Documentation (including Triparty Collateral Management Arrangements)
- Security Documentation (Pledge / Deed of Charge / other)
- Collateral Agency/Security Trustee Agreement
- (Collateral Administration Agreement)
- (Enforcement/Selling Agent Agreement)



PROSPECTUS AND LISTING OBLIGATIONS

- Prospectus obligation in case of Public Offer of Securities (EU/UK)
- Prospectus obligation in case of Regulated Market Listings (EU/UK)
- Information Memorandum in case of qualified investor offerings only
- In case of an MTN listing, a prospectus obligation could apply, subject to the rules of the relevant market
- Additional contents of prospectuses in respect of the collateral layer
 - Additional Risk factors
 - in respect of the security interests/insolvency protection/avoidance risks
 - factors in connection with an enforcement
 - on the credit risk of the Collateral Assets within the Collateral Pool
 - Additional descriptions on
 - collateralisation structure and collateral agency/trustee functions
 - enforcement trigger, enforcement actions and use of enforcement proceeds
 - involved parties and legal arrangements



GOVERNING LAW SELECTION

- Free choice of law in respect of Notes documentation
 - Subject to local law market standards
 - Security Agreements are subject to the laws governing the creation of the collateral
 - Governing law of Custody and Collateral Agency Agreements might depend on location of Custodian and their internal policies
- Possible to apply multiple laws



PERFECTION OF SECURITY INTERESTS

- Governing law of security agreements and local insolvency laws determine perfection requirements of the creation of the security over the assets in the Collateral Pool
 - Acceptable jurisdictions for investors
- Financial Collateral Arrangements pursuant to EU Financial Collateral Directive might require stricter perfection mechanics
- Insolvency protection of security interests
 - Analyse Avoidance risks
 - Analyse risks in case of enforcement, is an Involvement of insolvency administrator excluded
 - Bail-in protection of secured liabilities to be ensured

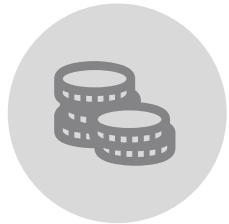


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BENEFITS AND RISKS OF COLLATERALIZED MTN PROGRAMS



BENEFITS OF COLLATERALIZED MTN PROGRAMS



Flexibility: Ability to issue a variety of note types, currencies, and maturities



Efficiency: Streamlined documentation and issuance process



Market Access: Enables access to the secured funding market



Customization: Collateral Structures can be structured to meet specific investor requirements

RISKS AND CHALLENGES



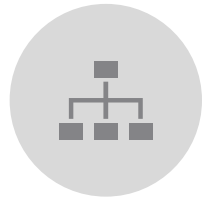
Collateral pool valuation can be volatile, and mark-to-market declines may trigger requirements for additional collateral



Collateral pool counterparty risks



Legal enforceability can be complex, especially with cross-border collateral, differing perfection rules, and the potential for claw-back in insolvency scenarios.



Operational complexity, dependency on custodian risks and risks in respect of the security trustee



Performance risks in respect of security trustee



Litigation risks in case investors challenge actions by trustees.

THE SPEAKERS



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THE LEGAL 500 DEUTSCHLAND (Client)



The background of the image features a blurred stack of coins, likely Euro coins, with a financial candlestick chart overlaid. The chart uses red and teal bars to represent price movements, with yellow and blue trend lines. Numerical values are placed at various points on the chart, including 54.26, 62.78, 66.01, 60.52, 62.5, 79.32, 98.71, 95.06, 84.0, 78.92, and 60.39. The Mayer Brown logo is centered in the middle of the image.

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