



Legal Alert

Capital Markets Department

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AMENDMENTS TO THE REGULATIONS CONCERNING BONDS

New Bond Act

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The Act of 15 January 2015 on Bonds will enter into force with effect from 1 July 2015 ("The new Bond Act"). The hitherto Act of 29 June 1995 will lose its effect. The most important changes in relation to the existing regulations include:

- *extending the circle of entities that can issue bonds;*
- *introducing a new type of bonds – i.e. perpetual bonds;*
- *introducing the legal basis for establishing bondholders' meetings.*

The circle of entities that can issue bonds

The current catalogue of entities has been extended with *companies set up specially to issue bonds*. Accordingly, the Polish legal system has been enriched by a construction that is known and popular in Western legal systems, which in fact already meets the interest of the Polish issuers, as exemplified by the recent foreign issue of bonds of the Swedish law company under the business name of PZU Finance AB, formed by the PZU Group. The implementation of this structure into the Polish legal system should certainly be seen as a step in the right direction of what is desired by the market.

Perpetual bonds

On the basis of the New Bond Act, the legislator also introduces a new type of bonds – perpetual bonds. In accordance with its terms, the issuer may issue non-redeemable bonds, which will entitle the bondholder to receive interest for an indefinite period. However, these bonds will be subject to mandatory redemption in the case of (i) a declaration of bankruptcy or the opening of liquidation of the issuer, and (ii) the issuer's default in payment of benefits under the bonds to bondholders.

Bondholders' Meeting

One of the novum implemented by the New Bond Act is the possibility to establish, in the Conditions of Issue, a Bondholders' Meeting constituting the representation of all bondholders. The resolutions of the Meeting may relate in particular to so-called "provisions of qualified conditions of the issue".

Summary

For several years in Poland there has been development in the non-treasury bond market, primarily the corporate market (as well as bonds issued by cooperative banks and local government units). To a large extent this was caused by the Catalyst platform created by the Warsaw Stock Exchange. Nonetheless, many market participants have expressed their opinion stating that existing regulations are not sufficient to allow development of the bond market.

The objective of the new regulation is to support the development of the bond market,



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so that the issue of bonds for issuers could serve as an important (if not equivalent) source of capital in relation to equity or bank financing.

The most interesting institution introduced by the new Bond Act seems to be the possibility to establish a bondholders' meeting. Market practice will show whether issuers will often and willingly establish the body in the conditions of issue. In addition, the possibility of appeal against the resolutions of the bondholders' meeting can lead to the formation of an interesting line of jurisprudence on bonds (especially corporate bonds), which has been, to date, virtually non-existent.

It is to be hoped, therefore, that after 1 July 2015 the bond market in Poland will see further dynamic development, that will facilitate the obtaining of financing by many companies.

Should you have any doubts in connection with any issues related to the new regulation or require further clarification, the lawyers of Kochanski Zieba Rapala & Partners will be willing to assist you accordingly.

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