

MS15/1.2: Annex 7

Market Study

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# Investment and corporate banking market study

Interim Report: Annex 7 – Fee outcomes and  
international comparisons

April 2016

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## Annex 7: Fee outcomes and international comparisons

1. In this Annex we set out the analysis of fees to support our findings in Chapter 6 and Chapter 8. In the sections below we:
  - assess fee levels and their variability for transactions covered by our data request (see Annex 2)
  - assess whether the increase in the number of reciprocal banks has led to an increase in fees for syndicated covered bond transactions
  - compare fee levels and variability in Europe, the Middle East and Africa (EMEA) as a whole with fee levels and variability in the United States (US) and South East Asia using Dealogic data<sup>1</sup>

### Fee outcomes for primary market services

2. We set out below the aim and scope of the analysis. We then consider in turn fees paid for ECM, DCM and M&A services that fall within the scope of the analysis.

#### Aim and scope of analysis

3. The aim of the analysis is to assess the overall level of gross fees paid for various primary market services and how much they vary, using the transactional data described in Annex 2.
4. To support our analysis in Chapter 8, we have assessed the following for each type of service covered by our analysis (except for covered bonds):
  - how gross fees vary depending on the main transaction characteristics (transaction size for ECM and M&A; transaction size, maturity and rating for DCM), including whether fees, given as a percentage of the transaction, decrease with transaction size<sup>2</sup>
  - average gross fee levels and their variability for transactions with similar main characteristics, including whether there is a 'market price' for specific types of services and whether fees 'cluster' at specific values
5. To support our analysis of reciprocity in Chapter 6, we consider whether the increase in the number of reciprocal banks has led to an increase in fees for syndicated covered bond transactions.

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<sup>1</sup> In undertaking the international comparison, we have assessed fees paid on transactions across EMEA as a whole because Dealogic data does not allow us to identify whether a particular transaction was carried out by a bank's UK operations.

<sup>2</sup> Fee differences may be explained by other transaction characteristics not captured by our analysis, such as a client's geographic location and sector. However, we consider that controlling for transaction size, rating and maturity is sufficient for the purposes of our analysis.

6. We focused our fee analysis on the main types of ECM, DCM and M&A services covered by the transactional data described in Annex 2.<sup>3</sup> Table 1 provides an overview of those services that fall within and outside the scope of the fee analysis.

**Table 1: Types of primary market services within and outside the scope of fee analysis**

Type of service	Covered by fee analysis	Not covered by fee analysis
ECM	<ul style="list-style-type: none"> <li>IPOs</li> <li>follow-on offerings structured as accelerated book-builds</li> <li>follow-on offerings structured as cash placings</li> <li>convertible debt</li> </ul>	<ul style="list-style-type: none"> <li>rump placement follow-on offerings</li> <li>block trade follow-on offerings</li> <li>fully marketed follow-on offerings</li> <li>guaranteed preferential allocation follow-on offerings</li> <li>rights offers</li> </ul>
DCM	<ul style="list-style-type: none"> <li>corporate investment grade bonds</li> <li>corporate high-yield bonds</li> <li>sovereign, supranational and agency (SSA) bonds</li> <li>covered bonds</li> </ul>	<ul style="list-style-type: none"> <li>medium term notes issued by financial institutions and corporates</li> <li>asset backed securities other than covered bonds</li> <li>Eurobonds</li> <li>FX linked bonds</li> <li>Samurai bonds</li> </ul>
M&A	<ul style="list-style-type: none"> <li>sell-side (target) advice</li> <li>buy-side (acquirer) advice</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>

7. We based our analysis on fees paid for transactions carried out between January 2014 and May 2015. For IPOs, we also analysed changes in fees over time by considering fees paid between January 2010 and May 2015.

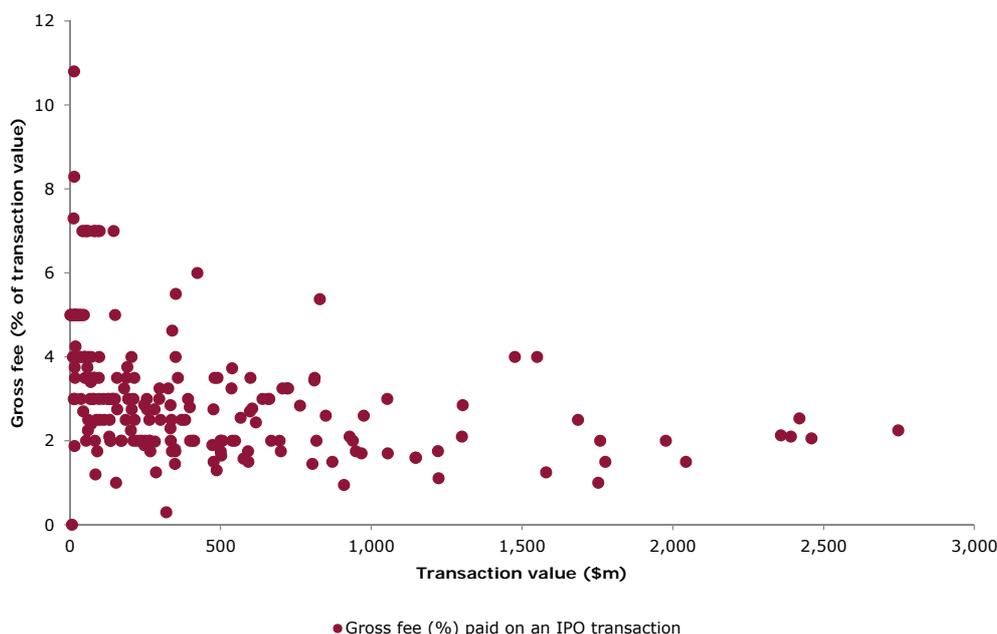
## ECM services

### IPOs

8. For IPOs, we found that:
- Fees expressed as a percentage of a transaction's value decrease with transaction size to reflect economies of scale. Average gross fees decrease from 4.61% for IPOs below \$70m to 2.29% for IPOs above \$570m (Figure 1 and Table 2).
  - Fees expressed in dollar terms increase with transaction size, as average fees range between \$1.43m for IPOs below \$70m to \$25.61m for IPOs above \$570m (Table 2).
  - Fees for transactions of similar sizes vary. For example, for IPOs below \$70m, fees range between 3.50% and 5.00% (1.50ppt difference) for the middle 50% of transactions and between 2.85% and 7.00% (4.15ppt difference) for the middle 80% of transactions (Table 2 and Figure 2, which illustrates the main statistics in Table 2).
  - Over the last five years, average gross IPO fees have remained relatively stable between 3% and 4% (Figure 3).

<sup>3</sup> In ECM, we restricted our analysis to services for each of which we had information on at least 100 transactions undertaken between January 2014 and May 2015. In DCM, we restricted our analysis to services for each of which we had information on at least 150 transactions undertaken between January 2014 and May 2015. While smaller sample sizes may be sufficient for a high-level fee analysis, they would not allow us to control for the relevant transaction characteristics that may drive differences in fee levels and variability. We also did not consider fees paid for bonds that are issued off MTN programs.

**Figure 1: Fees on IPO transactions by transaction value, January 2014 to May 2015**



Source: FCA analysis of transactional data described in Annex 2.

Note: For presentational purposes, we have excluded one transaction above \$4bn.

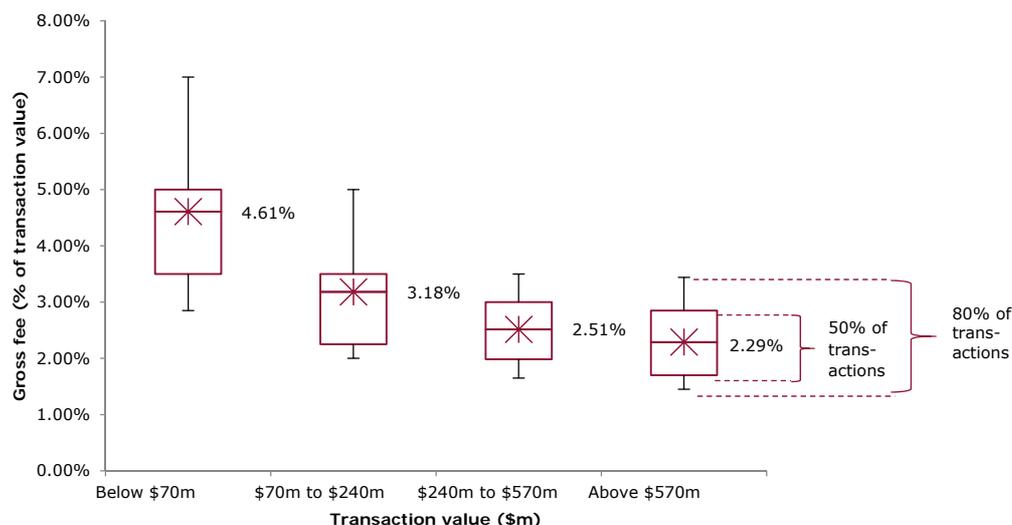
**Table 2: Average IPO fee levels and variation by transaction size, January 2014 to May 2015**

Transaction value	Average fee		Fee variation for the middle 50% of transactions, excluding top and bottom 25%		Fee variation for the middle 80% of transactions, excluding top and bottom 10%	
	% of transaction value	\$m	Range	Diff.	Range	Diff.
Below \$70m	4.61%	\$1.43m	3.50% - 5.00%	1.50ppt	2.85% - 7.00%	4.15ppt
\$70m - \$240m	3.18%	\$4.28m	2.25% - 3.50%	1.25ppt	2.00% - 5.00%	3.00ppt
\$240m - \$570m	2.51%	\$9.56m	1.98% - 3.00%	1.02ppt	1.65% - 3.50%	1.85ppt
Above \$570m	2.29%	\$25.61m	1.70% - 2.85%	1.15ppt	1.45% - 3.44%	1.99ppt
<b>Total</b>	<b>3.13%</b>	<b>\$10.32m</b>	<b>2.00% - 3.75%</b>	<b>1.75ppt</b>	<b>1.68% - 5.00%</b>	<b>3.33ppt</b>

Source: FCA analysis of transactional data described in Annex 2.

Note: The sample included 210 IPOs undertaken between January 2014 and May 2015. We split the sample into four groups, each containing approximately 25% of observations. Transaction value thresholds reflect the 25th, 50th and 75th percentiles rounded up to the nearest \$10m.

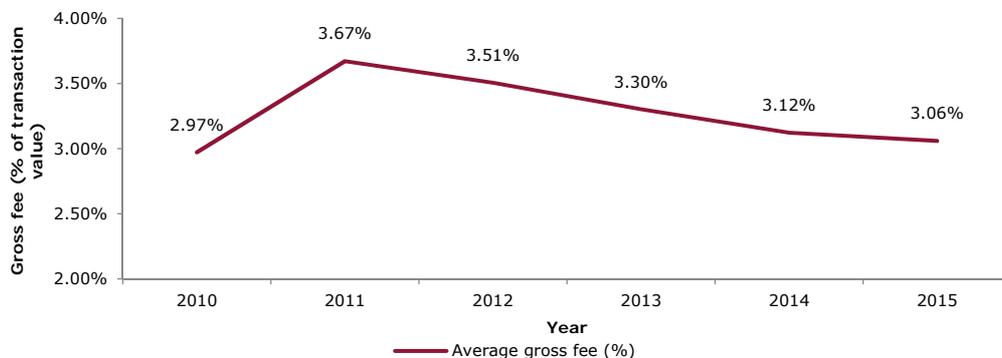
**Figure 2: Average IPO fee levels and variation by transaction size, January 2014 to May 2015**



Source: FCA analysis of transactional data described in Annex 2.

Note: The '\*' shows the average fee, the box shows the fee range for the middle 50% of transactions (excluding top and bottom 25% of transactions by fees) and the 'whiskers' show the fee range for the middle 80% of transactions (excluding top and bottom 10% of transactions by fees). The sample included 210 IPOs undertaken between January 2014 and May 2015. We split the sample into four groups, each containing approximately 25% of observations. Transaction value thresholds reflect the 25th, 50th and 75th percentiles rounded up to the nearest \$10m.

**Figure 3: Average gross IPO fees over time by transaction value, January 2014 to May 2015**



Source: FCA analysis of transactional data described in Annex 2.

Note: The sample included 494 IPOs undertaken between January 2010 and May 2015. The number of IPOs undertaken in each year ranged between 44 and 156.

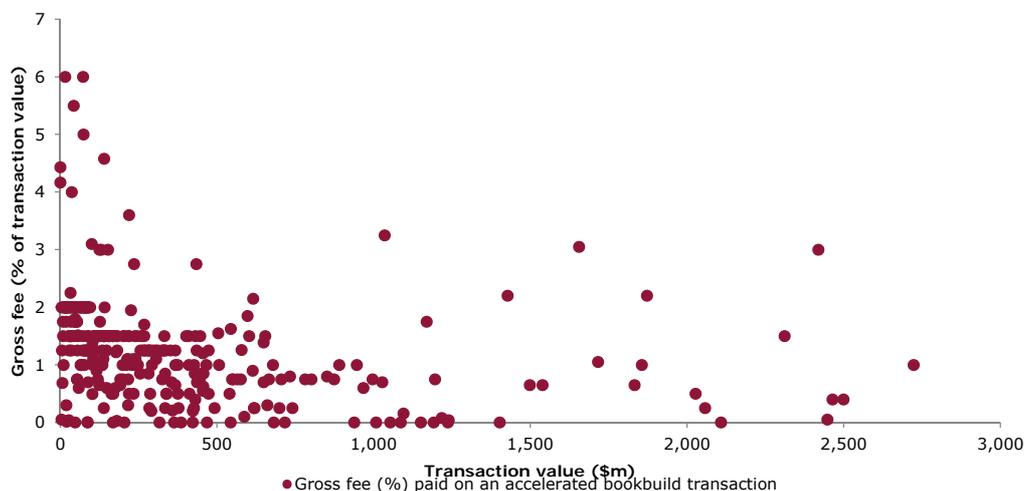
### Accelerated book-build follow-on offerings

9. For accelerated book-build follow-on offerings, we found that:

- Fees expressed as a percentage of a transaction's value decrease with transaction size to reflect economies of scale. Average gross fees decrease from 1.89% for accelerated book-builds below \$80m to 0.87% for accelerated book-builds above \$450m (Figure 4 and Table 3).
- Fees expressed in dollar terms increase with transaction size, as average fees range between \$0.78m for accelerated book-builds below \$80m to \$11.80m for accelerated book-builds above \$450m (Table 3).
- Fees for transactions of similar sizes vary. For example, for accelerated book-builds below \$80m, fees range between 1.50% and 2.00% (0.50ppt difference)

for the middle 50% of transactions and 1.00% and 2.00% for the middle 80% of transactions (1.00ppt difference) (Table 3 and Figure 5, which illustrates the main statistics in Table 3).

**Figure 4: Fees on accelerated book-build follow-on offerings by transaction value, January 2014 to May 2015**



Source: FCA analysis of transactional data described in Annex 2.

Note: For presentational purposes, we have excluded four transactions above \$3bn.

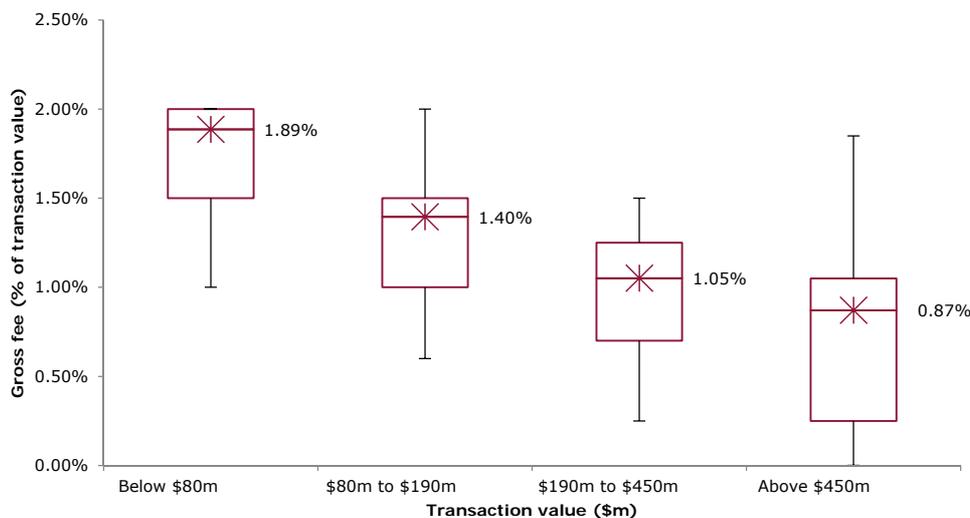
**Table 3: Average accelerated book-build follow-on offering fee levels and variation by transaction size, January 2014 to May 2015**

Transaction value	Average fee		Fee variation for the middle 50% of transactions, excluding top and bottom 25%		Fee variation for the middle 80% of transactions, excluding top and bottom 10%	
	% of deal value	\$m	Range	Diff.	Range	Diff.
Below \$80m	1.89%	\$0.78m	1.50% - 2.00%	0.50ppt	1.00% - 2.00%	1.00 ppt
\$80m to \$190m	1.40%	\$1.73m	1.00% - 1.50%	0.50 ppt	0.60% -2.00%	1.40 ppt
\$190m to \$450m	1.05%	\$3.12m	0.70% - 1.25%	0.55 ppt	0.25% - 1.50%	1.25 ppt
Above \$450m	0.87%	\$11.80m	0.25% - 1.05%	0.80 ppt	0.00% - 1.85%	1.85 ppt
<b>Total</b>	<b>1.32%</b>	<b>\$4.24m</b>	<b>0.75% - 1.75%</b>	<b>1.00 ppt</b>	<b>0.25% - 2.00%</b>	<b>1.75 ppt</b>

Source: FCA analysis of transactional data described in Annex 2.

Note: The sample included 329 accelerated book-build transactions undertaken between January 2014 and May 2015. We split the sample into four groups, each containing approximately 25% of observations. Transaction value thresholds reflect the 25th, 50th and 75th percentiles rounded up to the nearest \$10m.

**Figure 5: Average accelerated book-build follow-on offering fee levels and variation by transaction size, January 2014 to May 2015**



Source: FCA analysis of transactional data described in Annex 2.

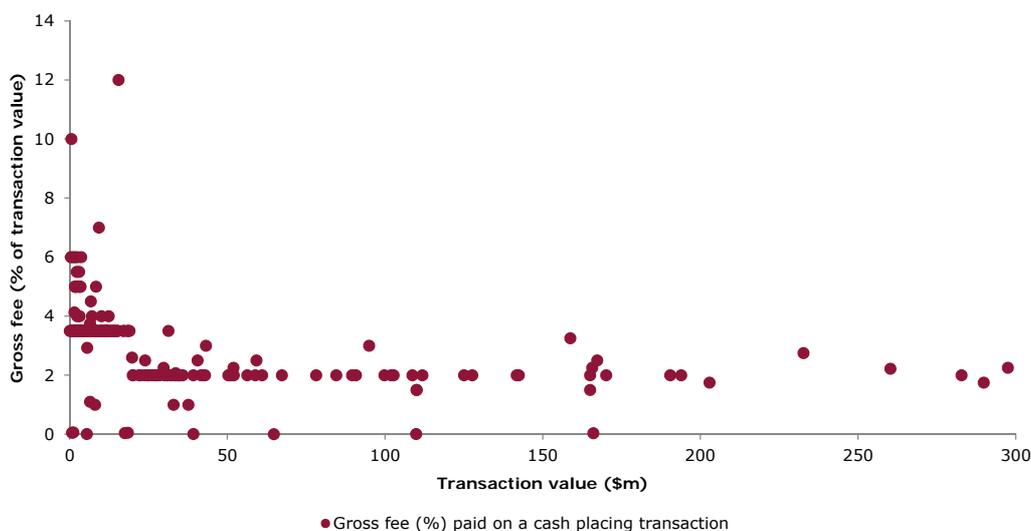
Note: The '\*' shows the average fee, the box shows the fee range for the middle 50% of transactions (excluding top and bottom 25% of transactions by fees) and the 'whiskers' show the fee range for the middle 80% of transactions (excluding top and bottom 10% of transactions by fees). The sample included 329 accelerated book-build transactions undertaken between January 2014 and May 2015. We split the sample into four groups, each containing approximately 25% of observations. Transaction value thresholds reflect the 25th, 50th and 75th percentiles rounded up to the nearest \$10m.

### Cash placing follow-on offerings

10. For cash placing follow-on offerings, we found that:

- Fees expressed as a percentage of a transaction's value decrease with transaction size to reflect economies of scale as average gross fees decrease from 3.51% for cash placings below \$32m to 1.91% for cash placings above \$32m (Figure 6 and Table 4).
- Fees expressed in dollar terms increase with transaction size, as average fees range between \$0.26m for cash placings below \$32m to \$2.27m for larger placings above \$32m (Table 4).
- Fees for transactions of similar sizes do not tend to vary, as for 64% of cash placings below \$32m the gross fee was set at 3.5% and for 61% of cash placings with transaction value above \$32 the fee was set at 2.00% (Figure 7). These transactions were primarily undertaken by small and medium-sized banks for small corporate clients on the AIM exchange.

**Figure 6: Fees on cash placing follow-on offerings by transaction value, January 2014 to May 2015**



Source: FCA analysis of transactional data described in Annex 2.

Note: For presentational purposes, we have excluded four transactions above \$300m.

**Table 4: Average cash placing follow-on offering fee levels and variation by transaction size, January 2014 to May 2015**

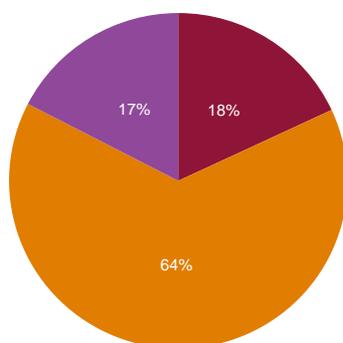
Transaction value	Average fee		Fee variation for the middle 50% of transactions, excluding top and bottom 25%		Fee variation for the middle 80% of transactions, excluding top and bottom 10%	
	% of deal value	\$m	Range	Diff.	Range	Diff.
Below \$32m	3.51%	\$0.26m	3.50%	0.00ppt	2.00% - 5.00%	3.00ppt
Above \$32m	1.91%	\$2.27m	2.00%	0.00ppt	1.50% - 2.50%	1.00ppt
<b>Total</b>	<b>3.02%</b>	<b>\$0.88m</b>	<b>2.00% - 3.50%</b>	<b>1.50ppt</b>	<b>2.00% - 4.00%</b>	<b>2.00ppt</b>

Source: FCA analysis of transactional data described in Annex 2.

Note: We split the sample into two groups based on the distribution of fees by transaction value (see Figure 6 above). The sample included 224 cash placing transactions (155 with transaction value below \$32m and 69 with transaction value above \$32m).

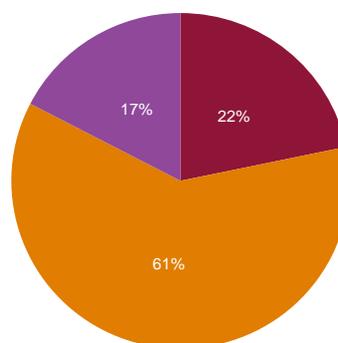
**Figure 7: Distribution of fees for cash placings with transaction value below and above \$32m, January 2014 to May 2015**

**(a) Cash placings below \$32m**



■ Gross fee below 3.50% ■ Gross fee of 3.50%  
 ■ Gross fee above 3.50%

**(b) Cash placings above \$32m**



■ Gross fee below 2.00% ■ Gross fee of 2.00%  
 ■ Gross fee above 2.00%

Source: FCA analysis of transactional data described in Annex 2.

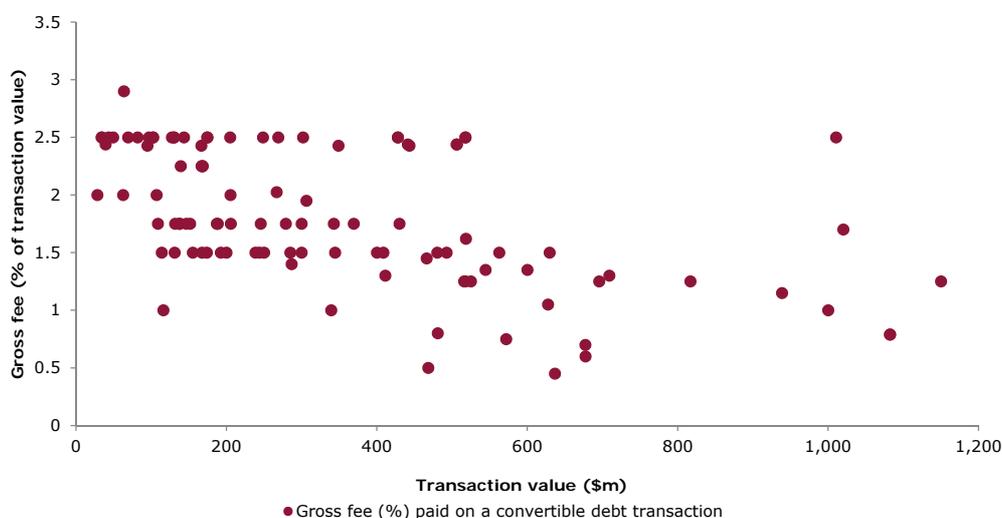
Note: We split the sample into two groups based on the distribution of fees by transaction value (see Figure 6 above). The sample included 224 cash placing transactions (155 with transaction value below \$32m and 69 with transaction value above \$32m).

### Convertible debt

11. For convertible debt, we found that:

- Fees expressed as a percentage of a transaction’s value decrease with transaction size to reflect economies of scale as average gross fees decrease from 2.19% for transactions below \$150m to 1.19% for transactions above \$520m (Figure 8 and Table 5).
- Fees expressed in dollar terms increase with transaction size, as average fees range between \$2.05m for transactions below \$150m to \$13.10m for large transactions above \$520m (Table 5).
- Fees for transactions of similar sizes vary as, for example, for transactions below \$150m, for the middle 50% of transactions fees varied between 1.75% and 2.50% (0.75ppt difference) and for the middle 80% of transactions fees varied between 1.50% and 2.50% (1.00ppt difference) (Table 5 and Figure 9, which illustrates the main statistics in Table 5). Despite the variation, however, fees tend to cluster at specific values (1.50%, 1.75%, 2.00% and 2.50%, see Figure 8).

**Figure 8: Fees on convertible debt ECM transactions by transaction value, January 2014 to May 2015**



Source: FCA analysis of transactional data described in Annex 2.

Note: For presentational purposes, we have excluded four transactions above \$1.2bn.

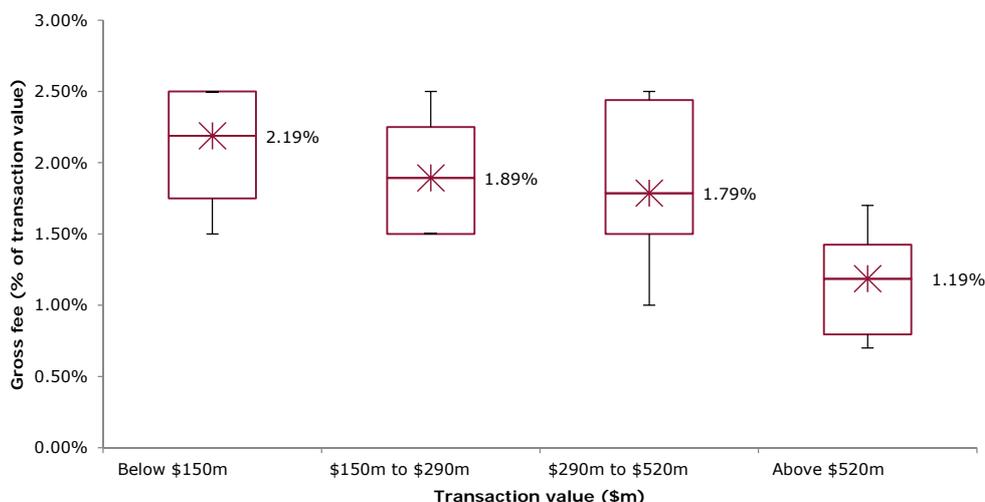
**Table 5: Average ECM convertible debt fee levels and variation by transaction size, January 2014 to May 2015**

Transaction value	Average fee		Fee variation for the middle 50% of transactions, excluding top and bottom 25%		Fee variation for the middle 80% of transactions, excluding top and bottom 10%	
	% of deal value	\$m	Range	Diff.	Range	Diff.
Below \$150m	2.19%	\$2.05	1.75% - 2.50%	0.75ppt	1.50% - 2.50%	1.00ppt
\$150m to \$290m	1.89%	\$3.94	1.50% - 2.25%	0.75ppt	1.50% - 2.50%	1.00ppt
\$290m to \$520m	1.79%	\$7.59	1.50% - 2.44%	0.94ppt	1.0% - 2.50%	1.50ppt
Above \$520m	1.19%	\$13.10	0.80% - 1.43%	0.63ppt	0.70% - 1.70%	1.00ppt
<b>Total</b>	<b>1.78%</b>	<b>\$6.46</b>	<b>1.48% - 2.44%</b>	<b>0.96ppt</b>	<b>1.00%-2.50%</b>	<b>1.50ppt</b>

Source: FCA analysis of transactional data described in Annex 2.

Note: The sample included 108 convertible debt transactions undertaken between January 2014 and May 2015. We split the sample into four groups, each containing approximately 25% of observations. Transaction value thresholds reflect the 25th, 50th and 75th percentiles rounded up to the nearest \$10m.

**Figure 9: Average ECM convertible debt fee levels and variation by transaction size, January 2014 to May 2015**



Source: FCA analysis of transactional data described in Annex 2.

Note: The '\*' shows the average fee, the box shows the fee range for the middle 50% of transactions (excluding top and bottom 25% of transactions by fees) and the 'whiskers' show the fee range for the middle 80% of transactions (excluding top and bottom 10% of transactions by fees). The sample included 108 convertible debt transactions undertaken between January 2014 and May 2015. We split the sample into four groups, each containing approximately 25% of observations. Transaction value thresholds reflect the 25th, 50th and 75th percentiles rounded up to the nearest \$10m.

## DCM services

### Corporate investment grade bonds

12. For corporate investment grade bonds, we found that<sup>4</sup>:

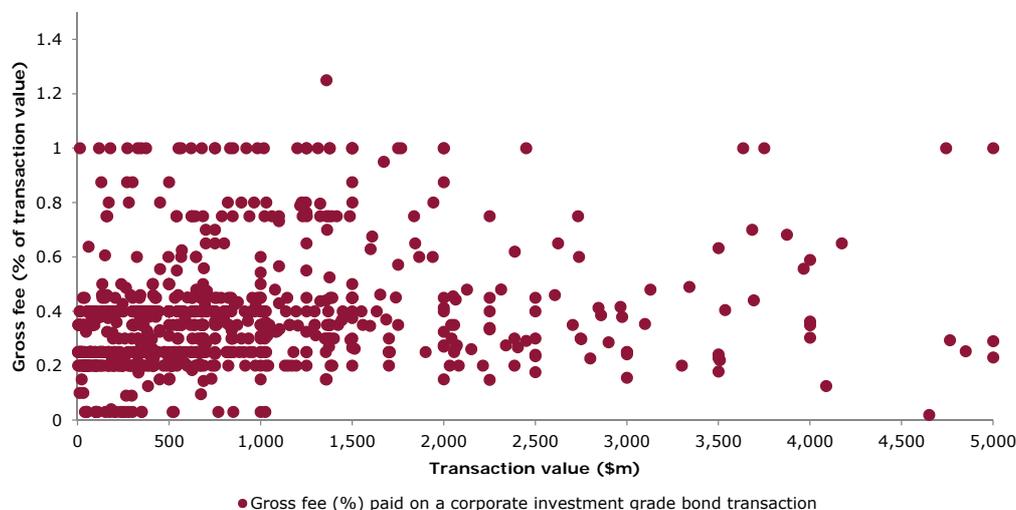
- Fees do not tend to vary with transaction size (Figure 10).<sup>5</sup>
- Fees increase with maturity of the bond as average gross fees increase from 0.24% for bonds with maturity of 2 to 4 years to 0.38% for bonds with maturity of 15 to 40 years (Table 6 and panel (a) in Figure 11, which illustrates the main statistics in Table 6).
- Fees increase as bond rating decreases - average gross fees increase from 0.24% for bonds with an AA rating to 0.44% for BBB bonds (Table 7 and panel (b) in Figure 11, which illustrates the main statistics in Table 7).<sup>6</sup>
- Fees for bonds with similar maturities or rating vary (Table 6, Table 7 and Figure 11). For example, for AA corporate bonds fees range between 0.15% and 0.35% (0.20ppt difference) for the middle 50% of transactions (Table 7 and panel (b) in Figure 11).

<sup>4</sup> These include bonds issued by both corporates and financial institutions.

<sup>5</sup> Here and in the below our analysis does not account for whether the bond was callable (i.e. could be redeemed by the issuer before its maturity). Where a bond is callable, fees may be set to reflect the call date rather than the maturity date. As fees for bonds with shorter maturities and the same rating may be lower than for longer maturities, we may underestimate the level of fees paid at longer maturities.

<sup>6</sup> We do not report fees split by combinations of maturity and rating (e.g. two to four year bonds with AA rating) due to small samples.

**Figure 10: Corporate investment grade bond fees by transaction value, January 2014 to May 2015**



Source: FCA analysis of transactional data described in Annex 2.

Note: For presentational purposes, we have excluded 11 transactions above \$5bn and 3 transactions with fees above 1%.

**Table 6: Average corporate investment grade bond fees and variation by bond maturity, January 2014 to May 2015**

Maturity	Average fee	Fee variation for the middle 50% of transactions, excluding top and bottom 25%		Fee variation for the middle 80% of transactions, excluding top and bottom 10%	
	% of deal value	Range	Diff.	Range	Diff.
2 to 4 years	0.24%	0.20% - 0.30%	0.10ppt	0.03% -0.36%	0.33ppt
4 to 7 years	0.30%	0.23%- 0.35%	0.12ppt	0.20% - 0.40%	0.20ppt
7 to 9 years	0.32%	0.25% - 0.40%	0.15ppt	0.25% -0.44%	0.19ppt
9 to 15 years	0.40%	0.35% - 0.45%	0.10ppt	0.22% -0.59%	0.37ppt
15 to 40 years	0.38%	0.20% - 0.45%	0.25ppt	0.20% -0.61%	0.41ppt
<b>Total</b>	<b>0.33%</b>	<b>0.25% - 0.40%</b>	<b>0.15ppt</b>	<b>0.20% -0.45%</b>	<b>0.25ppt</b>

Source: FCA analysis of transactional data described in Annex 2.

Note: The sample included 696 corporate investment grade bond transactions undertaken between January 2014 and May 2015. We split the sample into seven groups based on the distribution of gross fees by maturity (shorter than 2 years – 18 transactions; 2 to 4 years – 103 transactions, 4 to 7 years – 175 transactions, 7 to 9 years – 138 transactions, 9 to 15 years – 188 transactions, 15 to 40 years – 64 transactions, more than 40 years – 10 transactions). In the table above, we do not report results for bonds with maturities below 2 years or more than 40 years due to small samples.

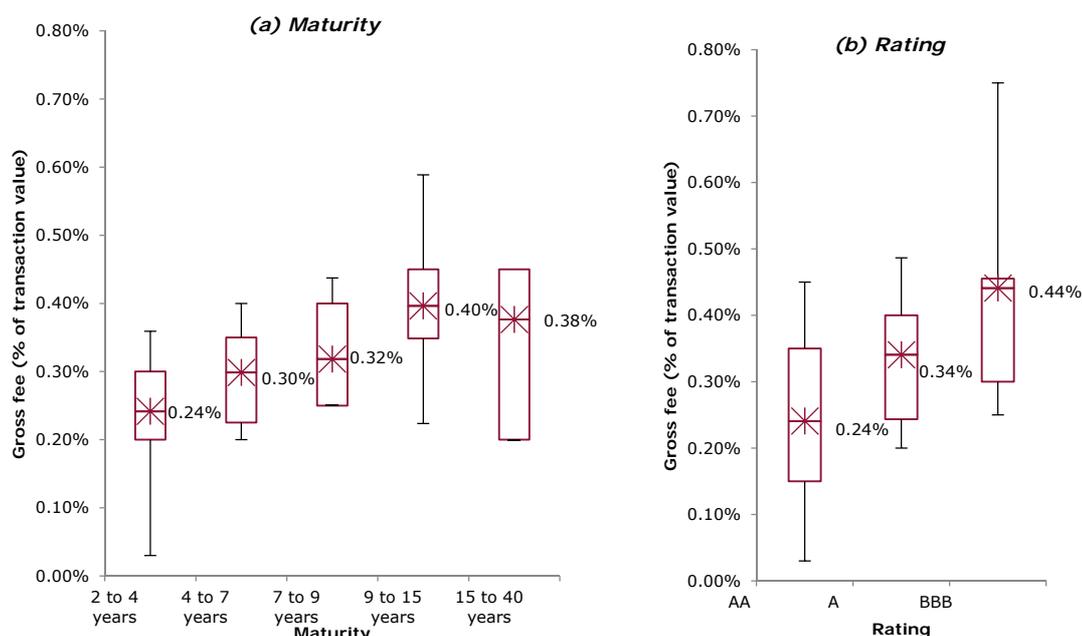
**Table 7: Average corporate investment grade bond fees by bond rating, January 2014 to May 2015**

Rating	Average fee	Fee variation for the middle 50% of transactions, excluding top and bottom 25%		Fee variation for the middle 80% of transactions, excluding top and bottom 10%	
	% of deal value	Range	Diff.	Range	Diff.
AA	0.24%	0.15% - 0.35%	0.20ppt	0.03% - 0.45%	0.42ppt
A	0.34%	0.24% - 0.40%	0.16ppt	0.20% - 0.49%	0.29ppt
BBB	0.44%	0.30% - 0.46%	0.16ppt	0.25% - 0.75%	0.50ppt
<b>Total</b>	<b>0.39%</b>	<b>0.25% - 0.43%</b>	<b>0.18ppt</b>	<b>0.20% - 0.75%</b>	<b>0.55ppt</b>

Source: FCA analysis of transactional data described in Annex 2.

Note: The sample included 793 corporate investment grade bond transactions undertaken between January 2014 and May 2015. We split the sample into groups by rating. In the table above, we do not report results for bonds with other ratings due to small samples (fewer than 50 observations) or because bonds were not rated, but these observations are included in the 'total'. The ratings include '+' and '-' ratings, for example, an AA bond category includes bonds rated as 'AA', '+AA' and '-AA'.

**Figure 11: Average corporate investment grade bond fees and variation by bond (a) maturity and (b) rating, January 2014 to May 2015**



Source: FCA analysis of transactional data described in Annex 2.

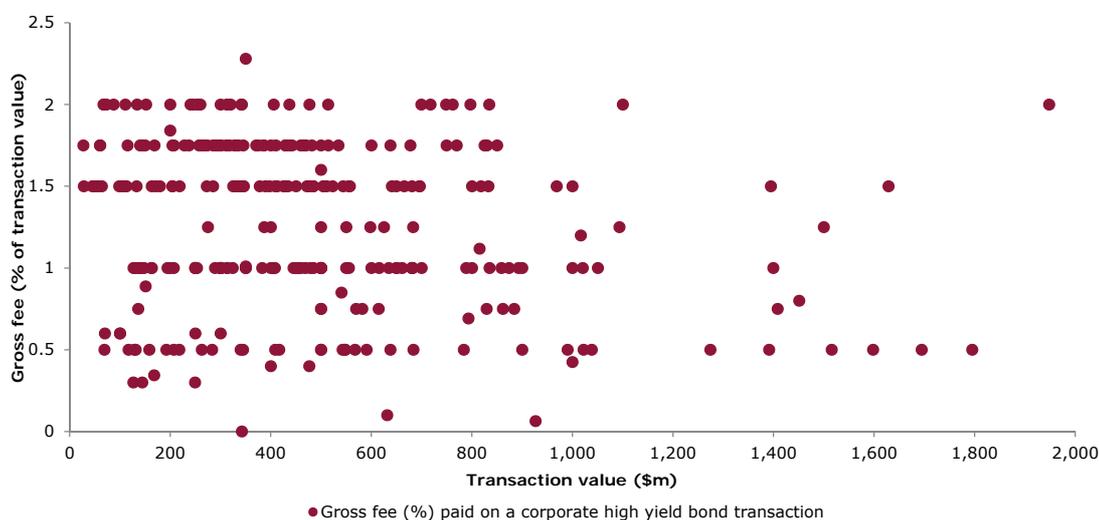
Note: The '\*' shows the average fee, the box shows the fee range for the middle 50% of transactions (excluding top and bottom 25% of transactions by fees) and the 'whiskers' show the fee range for the middle 80% of transactions (excluding top and bottom 10% of transactions by fees). For information on sample sizes, see notes to Table 6 and Table 7.

### Corporate high-yield bonds

13. For corporate high-yield bonds, we found that:

- Fees do not tend to vary with transaction size or maturity (Figure 12 and Figure 13 respectively). Lack of variation in fees by maturity can be explained by most bonds having similar maturity (i.e. 67% of corporate high yield bonds had maturity of five to eight years).
- Fees increase as bond rating decreases - average gross fees increase from 0.95% for bonds with a +/-BB rating to 1.52% for +/-B bonds (Table 8).
- Fees for bonds with similar rating vary (Table 8). For example, for BB rated bonds, fees range between 0.68% and 1.00% (0.33ppt difference) for the middle 50% of bonds and between 0.50% and 1.50% (1.00ppt difference) for the middle 80% of bonds (Table 8).

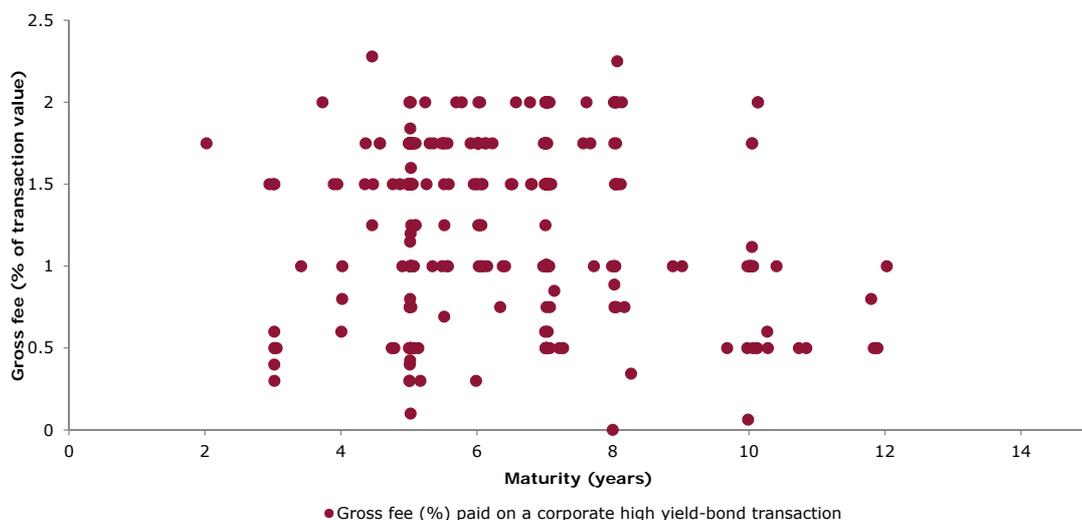
**Figure 12: Corporate high-yield bond fees by transaction value, January 2014 to May 2015**



Source: FCA analysis of transactional data described in Annex 2.

Note: For presentational purposes, we have excluded 14 transactions above \$2bn and 1 transactions with a fee above 3%.

**Figure 13: Corporate high-yield bond fees by maturity, January 2014 to May 2015**



Source: FCA analysis of transactional data described in Annex 2.

Note: For presentational purposes, we have excluded of maturity longer than 14 years.

**Table 8: Average corporate high-yield bond fees and variation by bond rating, January 2014 to May 2015**

Rating*	Average fee	Fee variation for 50% of transactions, excluding top and bottom 25%		Fee variation for 80% of transactions, excluding top and bottom 10%	
	% of deal value	Range	Diff.	Range	Diff.
BB	0.95%	0.68% - 1.00%	0.33ppt	0.50% - 1.50%	1.00ppt
B	1.52%	1.50% - 1.75%	0.25ppt	1.00% - 2.00%	1.00ppt
<b>Total</b>	<b>1.25%</b>	<b>1.00% - 1.75%</b>	<b>0.75ppt</b>	<b>0.50% - 2.00%</b>	<b>1.50ppt</b>

Source: FCA analysis of transactional data described in Annex 2.

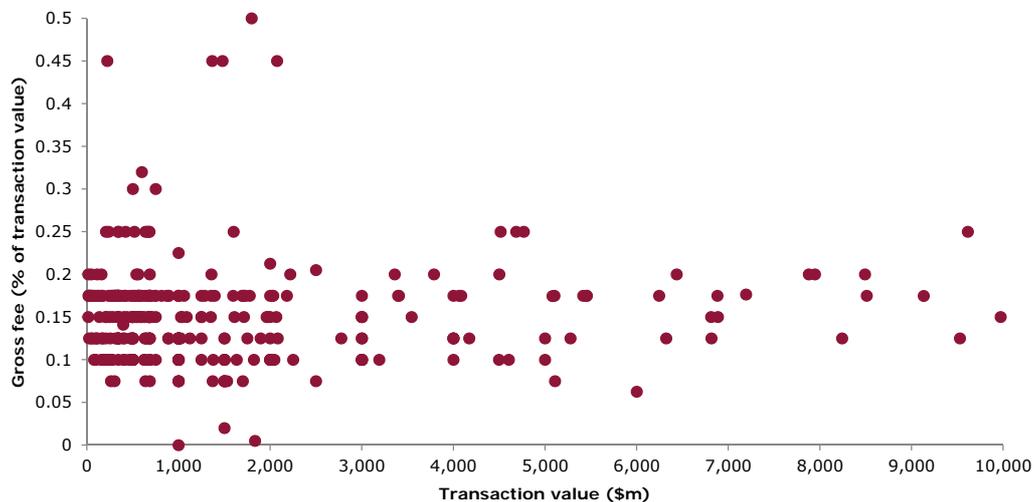
Note: The sample included 306 corporate high-yield bond transactions undertaken between January 2014 and May 2015. We split the sample into groups by rating. In the table above, we do not report results for bonds with other ratings due to small samples (fewer than 50 observations) or because bonds were not rated, but these observations are included in the 'total'. The ratings include '+' and '-' ratings, for example, a BB bond category includes bonds rated as 'BB', '+BB' and '-BB'.

### SSA investment grade bonds

14. For investment grade SSA bonds, we found that:

- Fees do not tend to vary with transaction size or maturity (
- Figure 14 and Figure 15 respectively).
- Fees increase with maturity of the bond, as fees increase from an average of 0.10% for 2 to 4 year bonds to 0.19% for 9 to 15 year bonds (Table 9).
- Fees do not vary for a significant proportion of bonds with similar maturities. Across all maturities we considered, at least 50% of transactions had the same fee (Table 9). For example, for the middle 50% of 2 to 4 year bonds the fee was 0.10%, for 4 to 7 year bonds the fee was 0.13%, for 7 to 9 year bonds the fee was 0.15% and for 9 to 15 year bonds the fee was 0.18%.

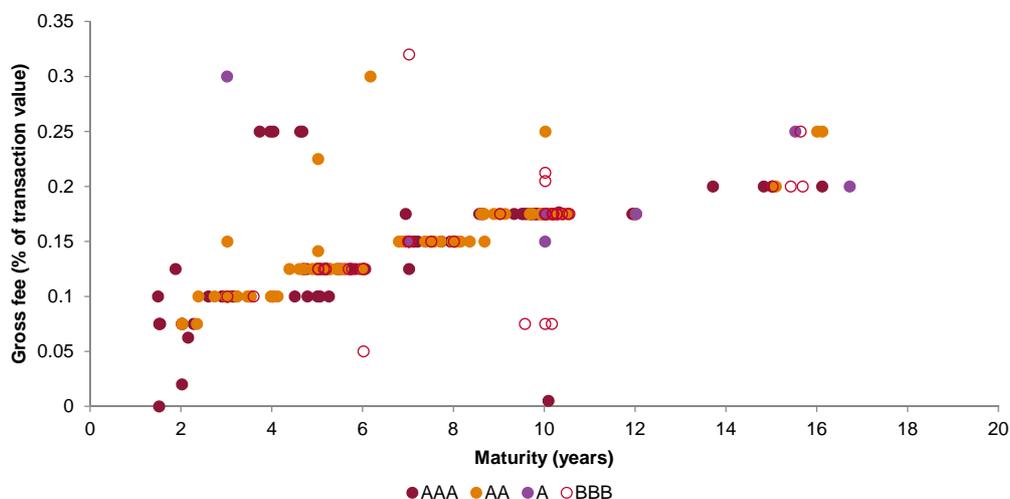
**Figure 14: Investment grade SSA bond fees by transaction value, January 2014 to May 2015)**



Source: FCA analysis of transactional data described in Annex 2.

Note: For presentational purposes, we have excluded 4 transactions above \$10bn.

**Figure 15: Investment grade SSA bond fees by maturity and rating, January 2014 to May 2015**



Source: FCA analysis of transactional data described in Annex 2.

Note: For presentational purposes, we have excluded 11 transactions with maturity longer than 20 years and 5 transactions with fees above 0.40%.

**Table 9: Average investment grade SSA bond fees by maturity, January 2014 to May 2015**

Maturity	Average fee	Fee variation for 50% of transactions, excluding top and bottom 25%		Fee variation for 80% of transactions, excluding top and bottom 10%	
	% of deal value	Range	Diff.	Range	Diff.
2 to 4 years	0.10%	0.10%	0.00ppt	0.01% - 0.10%	0.03ppt
4 to 7 years	0.13%	0.13%	0.00ppt	0.10% - 0.15%	0.05ppt
7 to 9 years	0.16%	0.15%	0.00ppt	0.15% - 0.18%	0.03ppt
9 to 15 years	0.19%	0.18%	0.00ppt	0.18%	0.00ppt
<b>Total</b>	<b>0.15%</b>	<b>0.13-0.18%</b>	<b>0.05ppt</b>	<b>0.10% - 0.20%</b>	<b>0.10ppt</b>

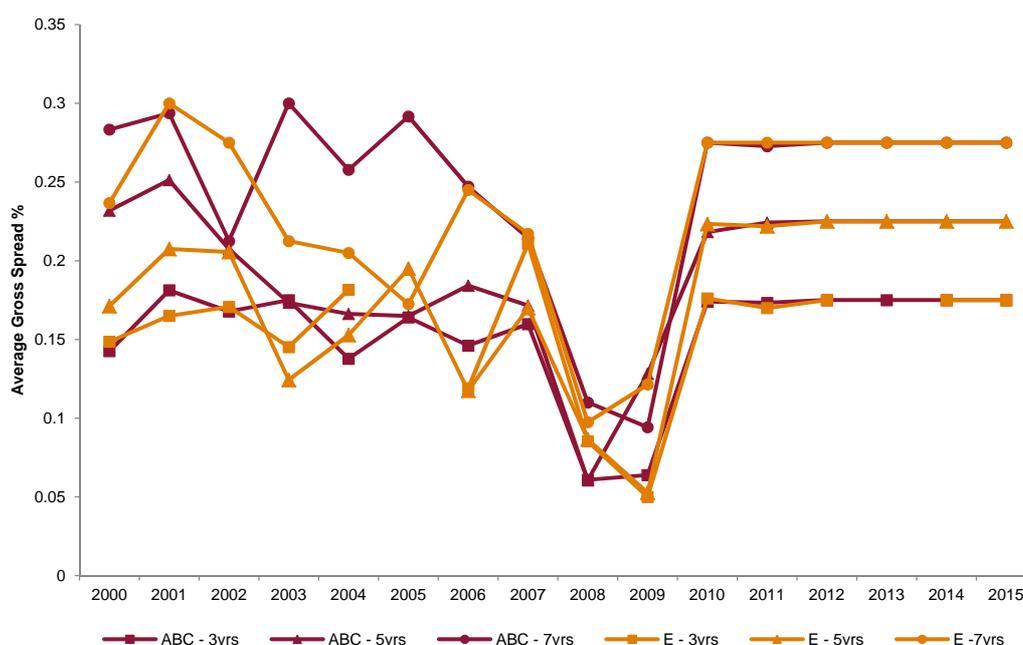
Source: FCA analysis of transactional data described in Annex 2.

Note: The sample included 330 SSA bond transactions undertaken between January 2014 and May 2015. We split the sample into seven groups based on the distribution of gross fees by maturity (shorter than 2 years – 6 transactions; 2 to 4 years – 53 transactions, 4 to 7 years – 89 transactions, 7 to 9 years – 49 transactions, 9 to 15 years – 110 transactions, 15 to 40 years – 20 transactions, more than 40 years – 3 transactions). In the table above, we do not report results for bonds with maturities below 2 years or more than 15 years due to small samples. These observations are included in the calculation for 'total'.

## Covered Bonds

15. In Chapter 6 we analysed whether the reciprocal arrangements between banks which both issue and underwrite covered bonds might have adverse implications for banks which are not party to these arrangements (either because they do not issue covered bonds, or they do not underwrite covered bonds).
16. In this section, we consider whether the increase in the number of reciprocal banks has led to an increase in fees for syndicated covered bond transactions for either non-reciprocal issuers or issuers in general. We examined the average fees for three, five and seven year syndicated AAA Euro Currency covered bonds in the period 2000 to 2015.
17. In summary, we found that there is no conclusive evidence supporting an increase in fees for either non-reciprocal issuers or issuers in general:
  - There was considerable variation in covered bond fees over the period, prior to 2010, with fees across maturities generally stabilising in the period post-2010. There is no noticeable upward trend over the period – average fees in 2015 are similar to 2000 for each maturity of bond (see Figure 16 and Table 10).
  - However, the convergence in fees post-2010 may be attributable to the use of Dealogic modelled fees for this period as Dealogic records limited fee information in recent years as having been directly disclosed.
  - The fees paid by reciprocal banks (type ABC described in the section on reciprocity in Chapter 6) do not appear to be systematically lower than fees for non-reciprocal banks (type E), particularly following the convergence in fee outcomes in recent years.

**Figure 16: AAA Euro Currency Syndicated Covered Bonds - Average fees on three, five and seven year bonds for reciprocal (type ABC) and non-reciprocal banks (type E)**



Source: FCA analysis of Dealogic data.

Note: The analysis covers average fees for AAA Euro Currency syndicated covered bonds issued in EMEA with maturity dates of 3, 5 or 7 years. This comprises 917 transactions in 2000-2015 having excluded outliers (where the gross spread is recorded as greater than 0.5%). Years to maturity recorded in Dealogic were rounded to the nearest integer. We selected three, five and seven year bonds as the maturity periods for which the most observations were recorded (comprising over 60% of the total observations across maturities).

**Table 10: AAA Euro Currency Syndicated Covered Bonds - average fees on three, five and seven year bonds for reciprocal and non-reciprocal banks**

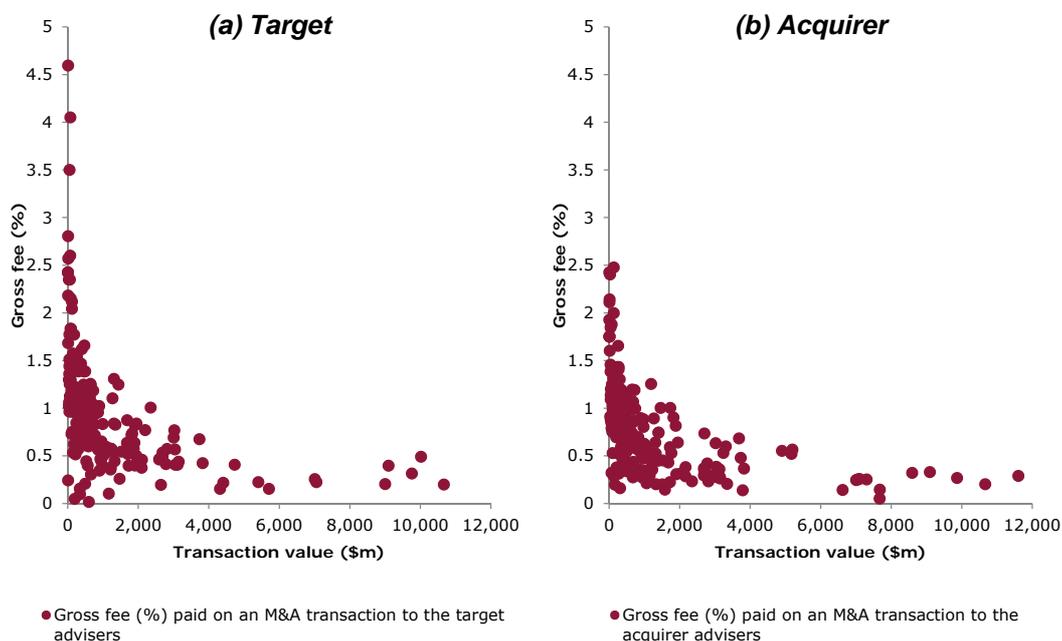
	3 year maturity	5 year maturity	7 year maturity
2000	0.15%	0.21%	0.27%
2015	0.17%	0.22%	0.28%
Minimum 2000-2015	0.07%	0.07%	0.10%
Maximum 2000-2015	0.18%	0.24%	0.30%

Source: FCA analysis of Dealogic data.

## M&A services

18. We assessed separately fees paid for M&A services provided to target ('sell-side') clients and acquirer ('buy-side') clients. We found that fees paid by target and acquirer clients were very similar.
19. We found that:
  - Fees expressed as a percentage of a transaction's value decrease with transaction size to reflect economies of scale (Figure 17). For target M&A services, average gross fees decrease from 1.59% for M&A transactions below \$150m to 0.49% for M&A transactions above \$1,270m (Table 11). For acquirer M&A services, average gross fees decrease from 1.20% for M&A transactions below \$150m to 0.39% for M&A transactions above \$1,270m (Table 12).
  - Fees expressed in dollar terms increase with transaction size. For target M&A services, average fees increase from \$1.02m for M&A transactions below \$150m to \$14.98m for M&A transactions above \$1,270m (Table 11). For acquirer M&A services, average fees increase from \$0.80m for M&A transactions below \$150m to \$15.03m for M&A transactions above \$1,270m (Table 12).
  - Fees for transactions of similar sizes vary (Figure 18 and Table 11 and Table 12). For example, for target M&A services, for M&A transactions below \$150m fees range between 1.18% and 1.88% (0.70ppt difference) for the middle 50% of transactions (Table 11 and panel (a) in Figure 18).

**Figure 17: Fees paid for M&A services to target and acquirer clients, January 2014 to May 2015**



Source: FCA analysis of transactional data described in Annex 2.

Note: For presentational purposes, we have excluded transactions above \$12bn.

**Table 11: Average M&A target fee levels and variation by transaction size, January 2014 to May 2015**

Transaction value	Average fee		Fee variation for the middle 50% of transactions, excluding top and bottom 25%		Fee variation for the middle 80% of transactions, excluding top and bottom 10%	
	% of deal value	\$m	Range	Diff.	Range	Diff.
Below \$150m	1.59%	\$1.02m	1.18% - 1.88%	0.70ppt	0.97% - 2.43%	1.45ppt
\$150m to \$450m	0.97%	\$2.71m	0.80% - 1.12%	0.31ppt	0.57% - 1.30%	0.73ppt
\$450m to \$1270m	0.73%	\$5.25m	0.53% - 0.89%	0.36ppt	0.35% - 1.12%	0.77ppt
Above \$1,270m	0.49%	\$14.98m	0.33% - 0.64%	0.31ppt	0.18% - 0.83%	0.65ppt
<b>Total</b>	<b>0.90%</b>	<b>\$6.32m</b>	<b>0.52% - 1.13%</b>	<b>0.61ppt</b>	<b>0.32% - 1.44%</b>	<b>1.13ppt</b>

Source: FCA analysis of transactional data described in Annex 2.

Note: The sample included 402 M&A transactions undertaken between January 2014 and May 2015. We split the sample into four groups, each containing approximately 25% of observations. Transaction value thresholds reflect the 25th, 50th and 75th percentiles rounded up to the nearest \$10m.

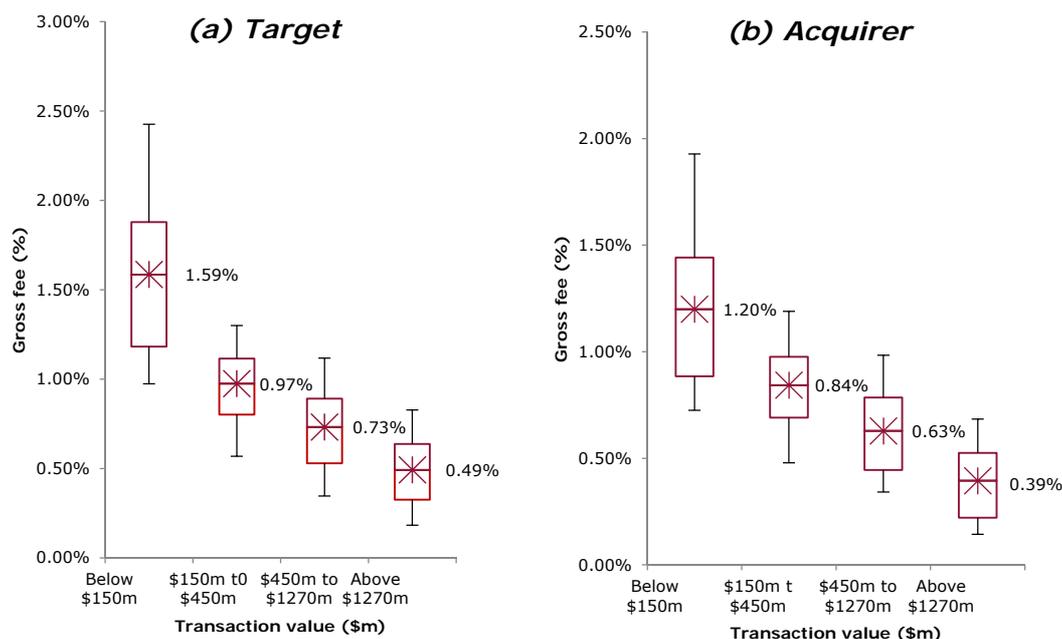
**Table 12: Average M&A acquirer fee levels and variation by transaction size, January 2014 to May 2015**

Transaction value	Average fee		Fee variation for 50% of transactions, excluding top and bottom 25%		Fee variation for 80% of transactions, excluding top and bottom 10%	
	% of deal value	\$m	Range	Diff.	Range	Diff.
Below \$150m	1.20%	\$0.80m	0.89% - 1.44%	0.56ppt	0.73% - 1.93%	1.20ppt
\$150m to \$450m	0.84%	\$2.44m	0.69% - 0.98%	0.29ppt	0.48% - 1.19%	0.71ppt
\$450m to \$1270m	0.63%	\$4.84m	0.45% - 0.79%	0.34ppt	0.34% - 0.98%	0.64ppt
Above \$1270m	0.39%	\$15.03m	0.22% - 0.53%	0.30ppt	0.14% - 0.68%	0.54ppt
<b>Total</b>	<b>0.73%</b>	<b>\$6.31m</b>	<b>0.39% - 0.95%</b>	<b>0.56ppt</b>	<b>0.24% - 1.25%</b>	<b>1.01ppt</b>

Source: FCA analysis of transactional data described in Annex 2.

Note: The sample included 338 M&A transactions undertaken between January 2014 and May 2015. We split the sample into four groups, each containing approximately 25% of observations. Transaction value thresholds reflect the 25th, 50th and 75th percentiles rounded up to the nearest \$10m.

**Figure 18: Variation in fees paid by target and acquirer clients for M&A services, January 2014 to May 2015**



Source: FCA analysis of transactional data described in Annex 2.

Note: The '\*' shows the average fee, the box shows the fee range for the middle 50% of transactions (excluding top and bottom 25% of transactions by fees) and the 'whiskers' show the fee range for the middle 80% of transactions (excluding top and bottom 10% of transactions by fees). The sample included 338 M&A transactions undertaken between January 2014 and May 2015. We split the sample into four groups, each containing approximately 25% of observations. Transaction value thresholds reflect the 25th, 50th and 75th percentiles rounded up to the nearest \$10m.

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## International comparisons

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20. In this section, we provide a high level comparison of fees paid for investment banking services across Europe, Middle East, and Africa (EMEA), the United States and South East Asia.<sup>7</sup> We set out below the aim and scope of the analysis. We then consider fees paid for the main types of ECM and DCM services.

### Aim and scope of the analysis

21. A number of stakeholders noted that fees in EMEA tend to be lower than in the US but higher than in Asia, particularly South East Asia (see Chapter 8). To assess the extent to which fees differ across the three regions, we compared the average gross fee levels and variation by transaction (or tranche) value over time for each of the following types of ECM and DCM services:
- IPOs
  - ECM follow-on offerings
  - investment-grade corporate bonds
  - high-yield corporate bonds
  - government and local authority bonds
22. We assessed trends in fees paid over a ten year period, 2005 to 2015, to account for the potential impact of the financial crisis.

### Data used

23. We based our analysis on data on gross fees and transaction/tranche values obtained from Dealogic. As Dealogic data does not allow us to identify whether a particular transaction falls within the scope of the market study (i.e. was carried out by a bank's UK operations), we assessed fees paid on transactions across EMEA as a whole.<sup>8</sup> This means that EMEA transactions covered by this fee analysis:
- may include some transactions that were carried out by a bank's offices outside of the UK which fall outside of the scope of the market study
  - may exclude some transactions carried out by a bank's UK operations for clients which are based outside of EMEA or on equity exchanges outside of EMEA but that would have been in scope of the market study

### Countries and regions considered

24. We focused our international comparisons on three countries/regions: EMEA, the US and South East Asia.
25. During our stakeholder engagement, however, we were told that fees paid in Asia can be quite diverse and that it is difficult to make generalisations about fee levels in the region. We therefore assessed fees paid in Asia more broadly than just South East Asia. Specifically, we considered fees paid in Malaysia, Singapore, Indonesia, Thailand, China, Japan, Hong Kong and India.<sup>9</sup>

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<sup>7</sup> South East Asia includes Brunei Darussalam, Cocos Islands, Christmas Island, Indonesia, Cambodia, Laos, Myanmar, Malaysia, Philippines, Singapore, Thailand, Timor-Leste, and Vietnam.

<sup>8</sup> For ECM we have defined the region or nationality of the transaction based on the country or region of the exchange in which the transaction took place. For DCM, we have defined the region or nationality of the transaction based on the country or region of incorporation of the issuer. The date of transaction has been defined by transaction pricing date and we have extracted all transactions between 1<sup>st</sup> January 2005 and 31<sup>st</sup> December 2015.

<sup>9</sup> According to Dealogic's classification, Malaysia, Singapore, Indonesia, and Thailand are in the South East Asia region while the other four countries are not. In our assessment of fees paid across Asia, we also included China and India due

26. We found that, although fees across most of the Asian countries we considered were similar, there was some diversity:
- In ECM, fees in Japan were higher than in the other Asian countries and ranged between 6% and 7% of IPO transaction value and between 4% and 5% of follow-on transaction value. In contrast, in other Asian countries, fees were similar across the countries: for IPOs, fees were around 2%-4% of transaction value and for follow-ons they were around 1%-3%. The exception to this is India where fees had fallen to around 0.5% of transaction value in recent years.
  - For DCM, Dealogic has relatively small sample sizes. However for investment grade corporate bonds, fees are generally similar between 0.2% and 0.4% of tranche value across the eight countries we considered. We observed that fees in Thailand had fallen between 2009 and 2010 from 0.5% to 0.1% of tranche value, where they had remained since.
27. Based on the above, we considered that the South East Asian countries were a good representation of fees across Asia, although we note the exceptions of Japan, India and Thailand.

## IPOs

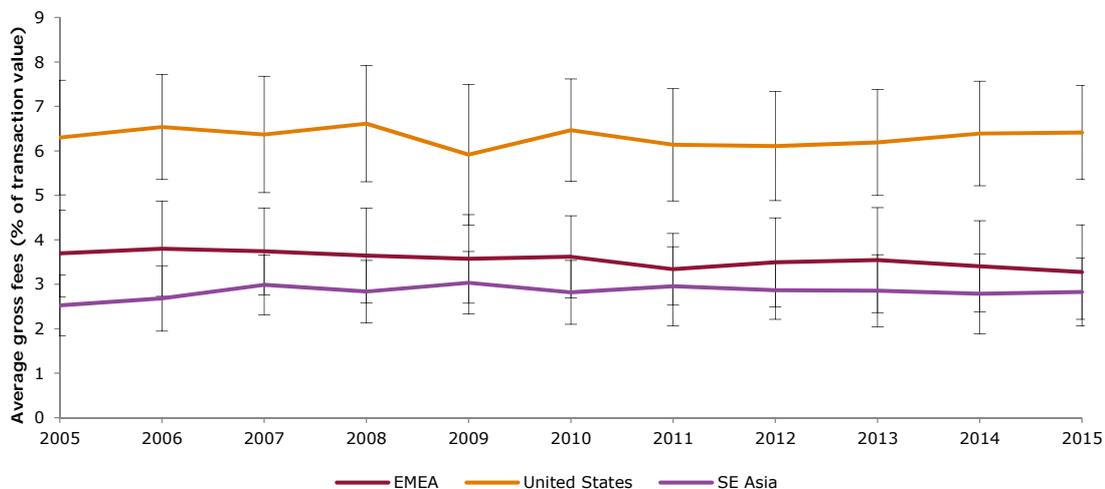
28. For IPOs, we found that:
- Average gross fees in EMEA are similar to fees paid in South East Asia but are lower than fees paid in the US (Figure 19).<sup>10</sup> Average fees in the US range between 6% and 7% of transaction value while in EMEA they are between 3% and 4% and in South East Asia between 2% and 3%.
  - In all three regions fees on transactions carried out between 2005 and 2015 are quite dispersed, both across and within transactions of various sizes (Figure 20).<sup>11</sup> Most transactions carried out in South East Asia are small relative to those in the US and EMEA, as the vast majority of transactions in South East Asia are below \$500m.

to the size of their economies and because we had heard that fees in India are particularly low. We also included Hong Kong and Japan as they are home to large financial centres. We excluded other countries in South East Asia as Dealogic records very few deals in these countries.

<sup>10</sup> For ECM services, i.e. IPOs and follow-ons, we have used the Dealogic variables "Gross Fee % (All)" and "Deal Value \$" as the variables for fees and transaction value, respectively.

<sup>11</sup> We combined all transactions that took place over 2005 - 2015 to improve sample size. Based on Figure 19 we do not expect fees to vary markedly during the period.

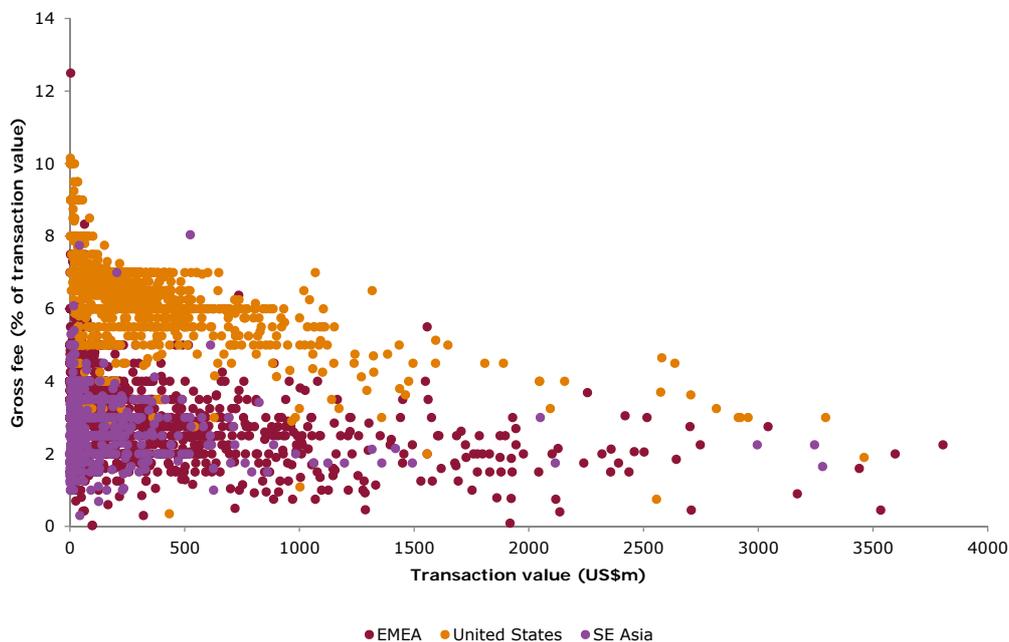
**Figure 19: Average gross IPO fees over time across EMEA, the US and South East Asia, 2005 to 2015**



Source: FCA analysis of Dealogic data.

Note: The bars represent one standard deviation in the fees in the particular region in that year. Our sample covers IPOs undertaken between 2005 and 2015, including 4215 IPOs in EMEA, 2378 in the US and 1201 in South East Asia. The number of IPOs undertaken in each year ranged between 109 and 779 in EMEA, 62 and 342 in the US and 64 and 200 in South East Asia. Across all three regions, the number of IPOs decreased markedly in 2008 and 2009 following the global financial crisis.

**Figure 20: Distribution of IPO fees across regions by transaction size, 2005 to 2015**



Source: FCA analysis of Dealogic data.

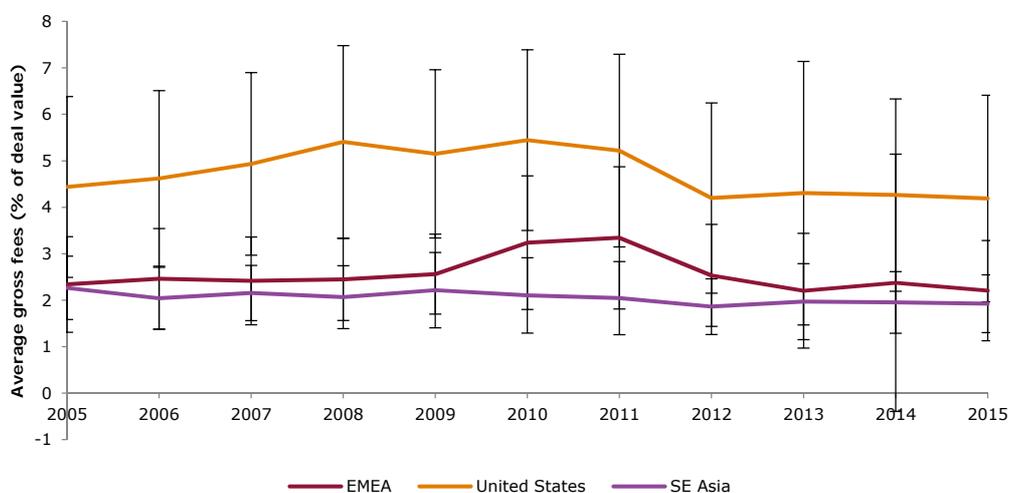
Note: Each dot represents a particular transaction. For presentational purposes, we have excluded 24 transactions with transaction size above \$4bn. We use data from 2005-2015 because average fees during this period are relatively stable, thus the distribution of fees will not be affected by any time trends in fees. Our sample included IPOs carried out in 2005 – 2015, including 3850 IPOs carried out in EMEA, 2034 in the US and 1168 in SE Asia.

## ECM follow-on offerings

29. For ECM follow-on offerings, we found that:

- As with IPOs, average gross fees for follow-on services are higher in the US at between 4% and 6% of total transaction value compared to EMEA and South East Asia where they are around 2%-4% (Figure 21).
- Fees in all three regions are quite dispersed and become less dispersed as transaction size increases (Figure 22). Further, just as with IPOs, transaction sizes in South East Asia are smaller than in EMEA and the US.

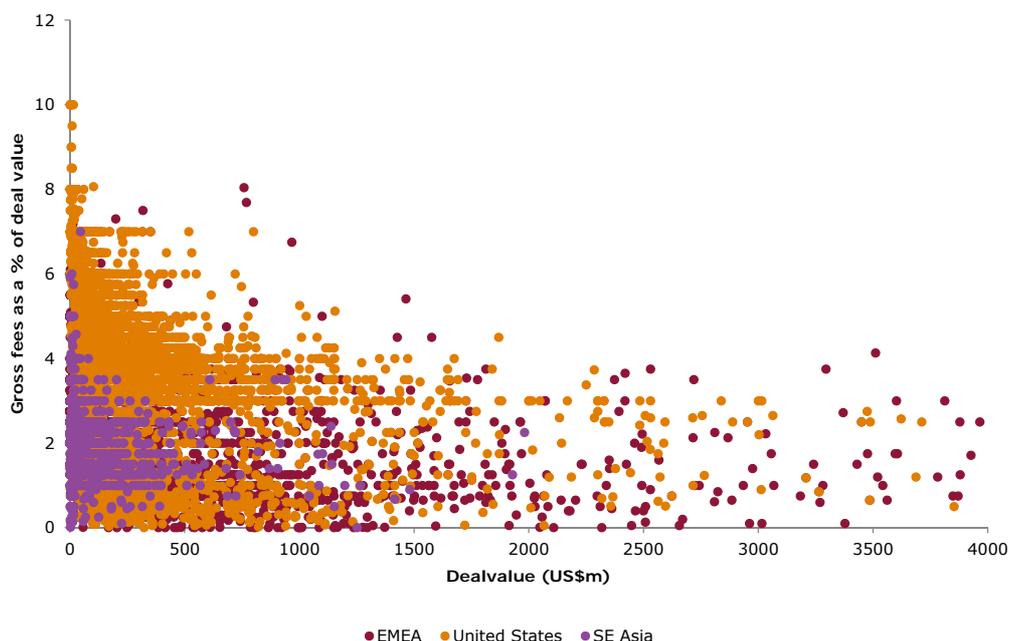
**Figure 21: Average gross ECM follow-on fees, 2005 to 2015**



Source: FCA analysis of Dealogic data.

Note: The bars represent one standard deviation in the fees in the particular region in that year. The sample included follow-ons carried out between 2005 and 2015, including 11,175 IPOs carried out in EMEA, 9981 in the US and 1771 in South East Asia. The number of IPOs carried out in each year ranged between 778 and 1351 in EMEA, 643 and 1277 in the US and 70 and 262 in SE Asia.

**Figure 22: Distribution of ECM follow-on fees across regions, 2005 to 2015**



Source: FCA analysis of Dealogic data.

Note: Each dot represents a particular transaction. For presentational purposes, we have excluded 88 deals with deal size above \$4bn. We use data from 2005-2015 because average fees during this period are relatively stable, thus the distribution in fees will not be affected by any time trends in fees. The sample included follow-ons carried out between 2005 and 2015, including 10,306 transactions carried out in EMEA, 6516 in the US and 1706 in SE Asia.

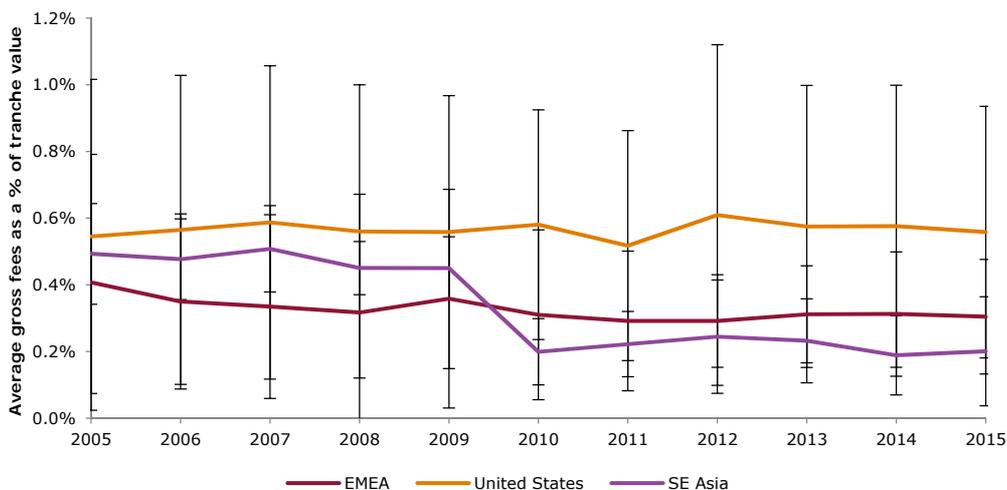
## Investment grade corporate bonds

30. For investment grade corporate bonds, we found that:

- Average gross fees are the highest in the US where they are relatively stable around 0.6% of tranche size (Figure 23).<sup>12</sup> In EMEA, average fees are lower and range between 0.3% and 0.4%. Average fees in South East Asia were in between those in the US and EMEA in the period between 2005 and 2009. However, average fees in South East Asia declined quite substantially between 2009 and 2010 to around 0.2% where they have remained stable.
- For the period 2014-2015, we found that in all three regions fees mostly range between 0% and 1% across all tranche values (Figure 24). There are a few tranches where fees are above 1.5%, particularly in the US, but these appear to be anomalous. Fees in South East Asia appear to be low relative to the US and EMEA, especially given the low value of transactions in this region. Excluding the anomalous tranches in the US, fees in the US do not appear to be dissimilar to EMEA.

<sup>12</sup> For DCM services, i.e. investment-grade corporate bonds, high-yield corporate bonds, and government and local authority bonds, fees were calculated by dividing "Gross Fee \$ (All)" by "Tranche Value \$ (Face)". We used "Tranche Value \$ (Face)" as the Dealogic variable for tranche value. We use tranche values rather than transaction level values as this field was more complete in Dealogic than the deal value field.

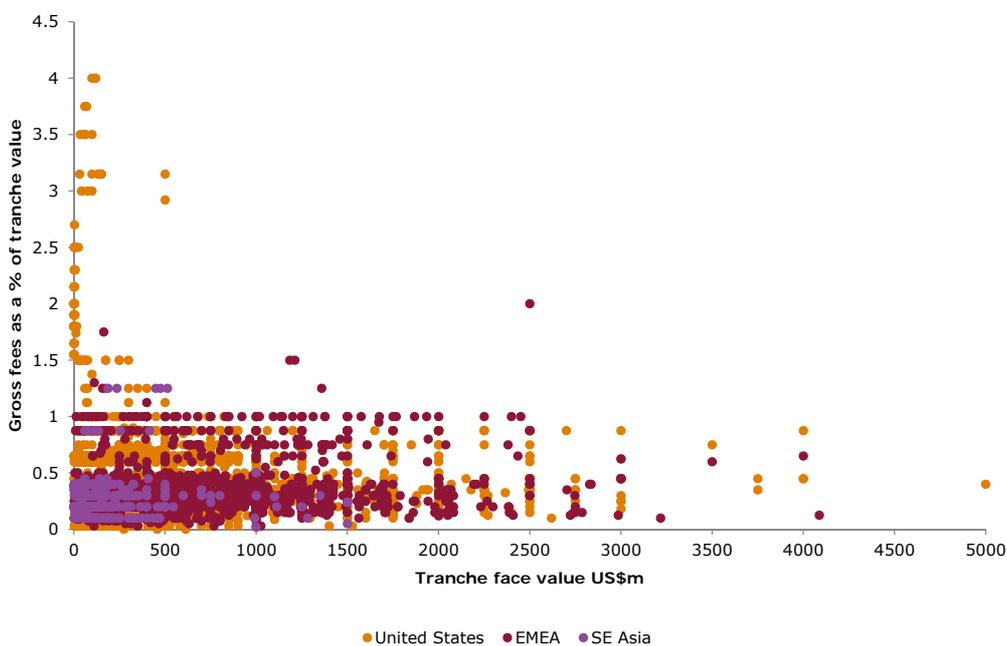
**Figure 23: Average investment-grade corporate bond fees, 2005 to 2010**



Source: FCA analysis of Dealogic data.

Note: The bars represent one standard deviation in the fees in the particular region in that year. The sample included investment grade corporate bond tranches issued between 2005 and 2015, including 24,068 issued in EMEA, 14,190 in the US, and 5,082 issued in SE Asia. The number of tranches issued each year varied between 1607 and 3577 in EMEA, 953 and 1725 in the US, and 309 and 656 in SE Asia.

**Figure 24: Scatter plot of investment-grade corporate bond fees across regions, 2014 and 2015**



Source: FCA analysis of Dealogic data.

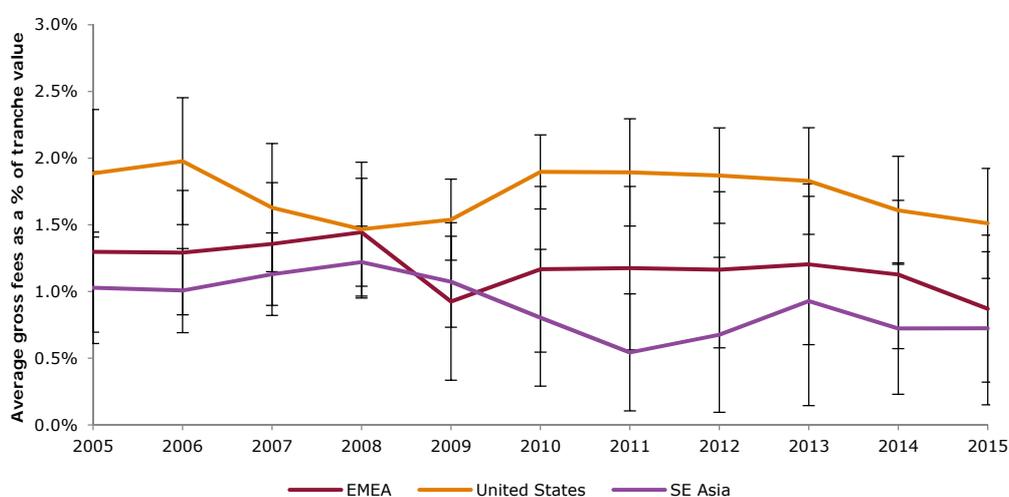
Note: For presentational purposes, we have excluded 1 tranche with a tranche value above \$5bn. Unlike ECM, fee levels appear to have changed substantially over time in some regions. We, therefore, only considered 2014 to 2015 in order to be confident that the distribution in fees is not affected by any time trend in fees. The sample included investment grade corporate bond tranches issued between 2014 and 2015, including 2857 issued in EMEA, 3326 in the US, and 864 issued in SE Asia.

## High yield corporate bonds

31. For high yield corporate bonds, we found that:

- Average fees for high yield corporate bonds are higher in the US than in EMEA and South East Asia (Figure 25). Fees in the US are around 1.5%-2% of tranche value whereas fees in EMEA are around 1%-1.5% and in South East Asia around 0.5%-1%.
- For the period 2014-2015, we found that in all three regions fees are quite dispersed across tranche values (Figure 26).<sup>13</sup>

**Figure 25: Unweighted average high-yield corporate bond fees, 2005 to 2015**

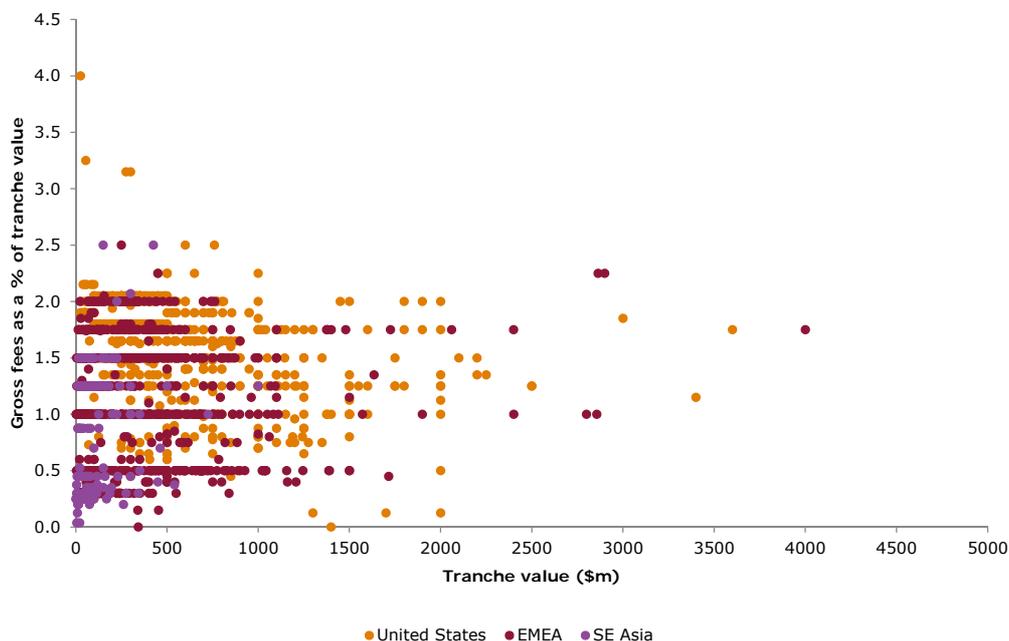


Source: FCA analysis of Dealogic data.

Note: The bars represent one standard deviation in the fees in the particular region in that year. The sample included high-yield corporate bond tranches issued between 2005-2015, including 4831 issued in EMEA, 4209 issued in the US, and 1063 issued in South East Asia. The number of tranches issued each year varies between 244 and 661 in EMEA, 113 and 554 in the US, and 58 and 132 in South East Asia.

<sup>13</sup> We restricted our analysis to 2014 and 2015 as, based on Figure 25, average fee levels appear to have changed significantly between 2005 and 2015.

**Figure 26: Distribution of high-yield corporate bond fees across regions, 2014 and 2015**



Source: FCA analysis of Dealogic data.

Note: The bars represent one standard deviation in the fees in the particular region in that year. The sample included high-yield corporate bond tranches issued between 2014-2015, including 1020 issued in EMEA, 811 issued in the US, and 212 issued in South East Asia.

## Government and local authority bonds

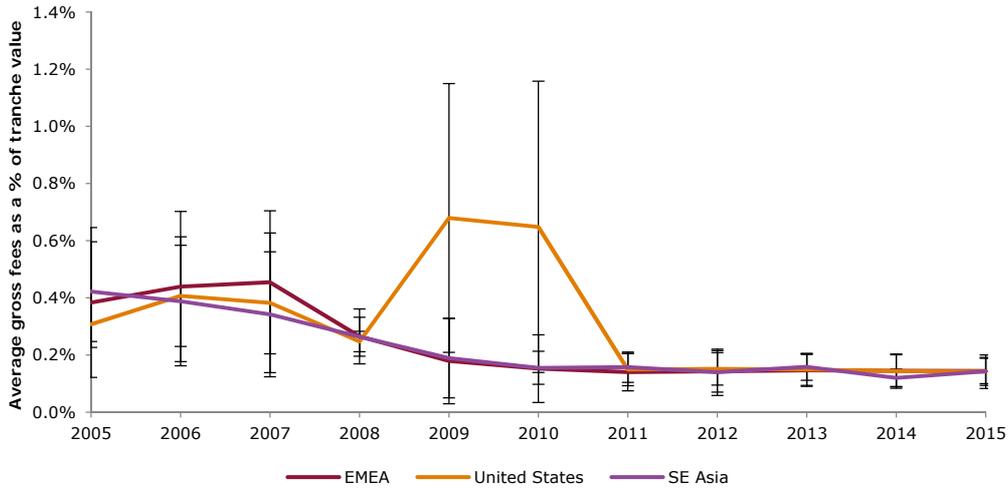
32. For government and local authority bonds, we found that:

- Average fee levels across three regions appear to be similar, with the exception of the US in the period between 2008 and 2011 (Figure 27).<sup>1415</sup> Between 2011 and 2015, fees are around 0.15% of tranche value in each of these three regions.
- Across all three regions, fees 'cluster' at specific levels, but it is difficult to identify a discernible difference in fees between the three regions (Figure 28).

<sup>14</sup> The increase in the average level of fees paid in the US in 2009 and 2010 can be explained by the introduction of the Build America Bonds programme as a result of which a significant number of low value bonds were issued in 2009 and 2010 which commanded relatively higher fees. For more information on Build America Bonds, see: <https://www.treasury.gov/initiatives/recovery/Pages/babs.aspx>

<sup>15</sup> Note that there are some years in which sample sizes in our dataset were particularly small. For example, in SE Asia in 2013 and 2014 the sample size was 9 and 13 respectively. In addition, in the US for the period 2009 - 2010 the sample size was unusually large at 945 and 1970, respectively. In the other years in our sample, the sample size varied between 44 and 98.

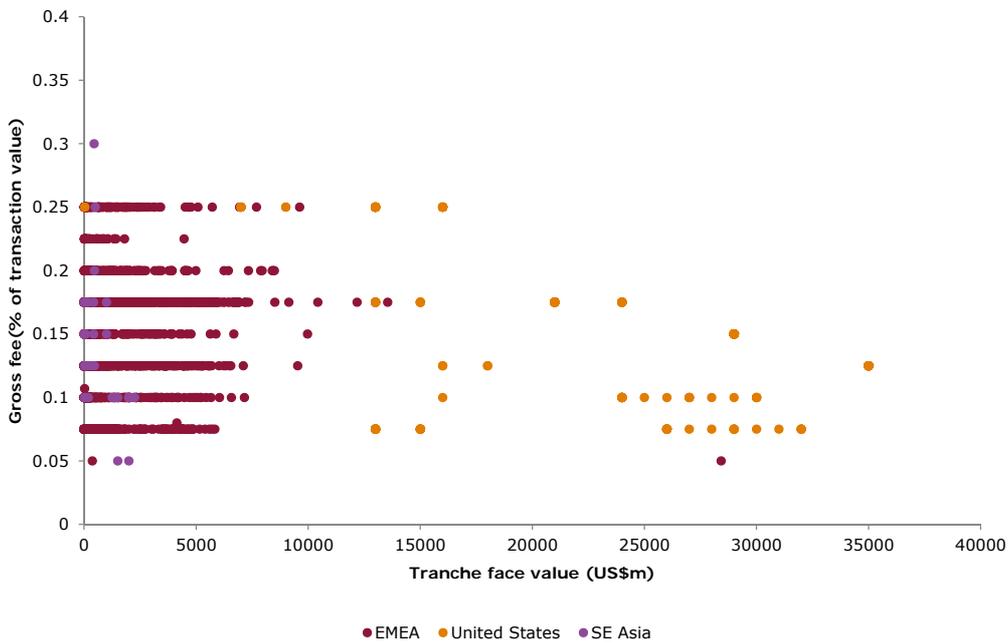
**Figure 27: Average government and local authority bond fees, 2005 to 2015**



Source: FCA analysis of Dealogic data.

Note: The bars represent one standard deviation in the fees in the particular region in that year. The sample included government and local authority bonds issued between 2005-2015 including 13932 in EMEA, 3545 in the US, and 477 in South East Asia. The number of tranches issued varies in each year between 788 and 1670 in EMEA, 44 and 1970 in the US, and 9 and 99 in South East Asia.

**Figure 28: Distribution of government and local authority fees across regions, 2014 to 2015**



Source: FCA analysis of Dealogic data.

Note: For presentational purposes, we have excluded 2 tranches where the fees were very high such that they are anomalies. The sample included government and local authority bonds issued between 2014 and 2015 including 3109 in EMEA, 193 in the US, and 45 in South East Asia.

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