# ***Characteristics of 144A Transactions***

Most 144A securities are structured to combine Rule 144A with a Section 4(2) exemption of the Securities Act of 1933 thus allowing both Qualified Institutional Buyers ("QIBs") and Institutional Accredited Investors ("IAI") to be eligible to participate in the primary and secondary 144A market. This larger, more diversified distribution among sophisticated investors improves both liquidity, and price. IAIs include most institutional investors with total assets in excess of $5 million; QIBs include institutions that own and/or manage in excess of $100 million of securities.

## Underwritten, Not Agented

Unlike private placements, which are "agented" transactions sold privately through an intermediary such as an investment bank, most corporate 144As are "underwritten" whereby investment banks buy the securities and then resell them to institutional investors. These underwritten 144A transactions carry the characteristics of public offerings.

## Covenants

In traditional private placements, covenants are negotiable. This is not the case with public securities. 144A securities, much like public issues, have non-negotiable covenants.

## Ratings

In order to tap the 144A market, issues need to be rated by either Moody's and Standard & Poor's, or both.

## Size, Documentation and Settlement

Typically larger in size than traditional private placements, most Rule 144A securities have straightforward structures and standardized documentation. As with a public offering, the documentation will include an offering memorandum (including the issuer's latest financial statements), the underwriting agreement and the fiscal agency agreement. All documentation on 144As and public securities is standardized, whereas with privates it is unique for each security. Settlement is typically 3-day corporate (same as publics) with book entry form settlement available through the Depository Trust Company (DTC).

**Distribution**

Major US securities houses trade and sell public and 144A securities off the same desks. This is not the case with private securities.

**Liquidity**

With the 144A market size now exceeding $100 billion, investment banks that underwrite 144A transactions are strongly committed to maintaining an active secondary market for 144A securities. This is an essential feature for ensuring liquidity. Because issue sizes have increased in the Rule 144A market and the secondary-market liquidity has stepped up considerably during the last few years, the typical distribution of a 144A bond in 1996 looks very similar to that of a public bond, with total-rate-of-return investors becoming increasingly active participants in the 144A market.

Also, the increased liquidity in the 144A market is expressed through the fact that 144A bid-offer spreads have approached those of comparable public issues. At the same time average daily-trading volumes of public bonds and 144A are converging as well.

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