# Macroeconomic impacts of applying Rule 15c2-11 to Rule 144A debt issued by private US companies

Prepared for the National Association of Manufacturers

November 2022

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# Background

- US Securities and Exchange Commission (SEC) Rule 15c2-11 requires broker-dealers to review key issuer information and ensure that such information is current and publicly available prior to publishing quotations for securities to the market through quotation mediums. Since Rule 15c2-11's implementation in 1971, it has deterred fraud in the largely retail, over-the-counter (OTC) equity markets.
- SEC Rule 144A provides a safe harbor from registration for resales of securities to qualified institutional buyers (QIBs)—large financial institutions that own or manage more than $100 million in securities. Retail investors cannot purchase Rule 144A securities. Notably, under Rule 144A, issuers are obligated to make their financial and operational information available to QIBs.
- In September 2020, the SEC amended Rule 15c2-11, which resulted in an updated interpretation from the SEC staff that the rule should be applied to fixed income securities, including Rule 144A securities, contrary to historical practice. In December 2021, the SEC's Division of Trading and Markets issued a no-action letter indicating the staff would not recommend enforcement action for non-compliance with respect to certain fixed income securities subject to a three-phase timeline to apply amended Rule 15c2-11.
- Beginning in January 2023, issuers of Rule 144A bonds are expected to make their financial information current and publicly available for broker-dealers to be able to freely offer to buy and sell their bonds.
- This study estimates the macroeconomic impacts of applying Rule 15c2-11 to Rule 144A bonds issued by private US companies. If broker-dealers are not able to freely offer to buy and sell an issuer's bonds, this would result in an increase in borrowing costs via an illiquidity premium. The size of the illiquidity premium is estimated using a survey of US fixed income market professionals from seven large financial institutions and macroeconomic impacts are estimated using the EY Macroeconomic Model.

# Macroeconomic impacts of applying Rule 15c2-11 to Rule 144A debt issued by private US companies

A large portion of the burden of applying Rule 15c2-11 to Rule 144A bond markets would fall on workers through decreased labor productivity, wages, and employment. Amended Rule 15c2-11 is estimated to decrease job equivalents relative to the baseline level:*

**30,000 fewer jobs each year** — First five years

**50,000 fewer jobs each year** — Second five years

**100,000 fewer jobs each year** — After first ten years

Additionally, amended Rule 15c2-11 is estimated to reduce US GDP relative to the baseline level:

**$10 billion** GDP decrease each year

**$100 billion** GDP decrease over 10 years

Note: Job equivalents summarize the impact of both the reduction in hours worked and reduced wages. Impacts are scaled to the size of the 2023 US economy. Figure are rounded.
Source: EY analysis.

*Increased borrowing costs raise the cost of investment, which discourages investment and results in less capital formation than would otherwise occur. With less capital available per worker, labor productivity falls. This reduces workers' real wages and, ultimately, the overall productive capacity of the US economy. The impact grows over time as it takes time for changes in investment flows to impact the capital stock. This analysis assumes that private US companies would not disclose their financial information. There is, however, significant uncertainty as a similar market dynamic has not been previously encountered. Additional information on the data and methodology as well as sensitivity analysis, caveats, and limitations can be found in the EY report this slide deck summarizes. The macroeconomic impacts are estimated using the EY Macroeconomic Model, a macroeconomic model similar to models used by the Congressional Budget Office, Joint Committee on Taxation, and US Department of the Treasury.

# Impact on borrowing costs

To estimate the potential change in borrowing costs for Rule 144A bond issuers that do not make their financial information publicly available, EY surveyed US fixed income market professionals from seven large financial institutions on their expectations for the illiquidity premium such issuers would face.* The median response from the respondents, which provided results separately for investment-grade and high-yield bonds, was:

***All impacted issuances***

72 bps
illiquidity premium

***Investment-grade issuances***

27 bps
illiquidity premium

8% increase in borrowing costs

*for an illustrative 3.5% rate investment-grade bond*

***High-yield issuances***

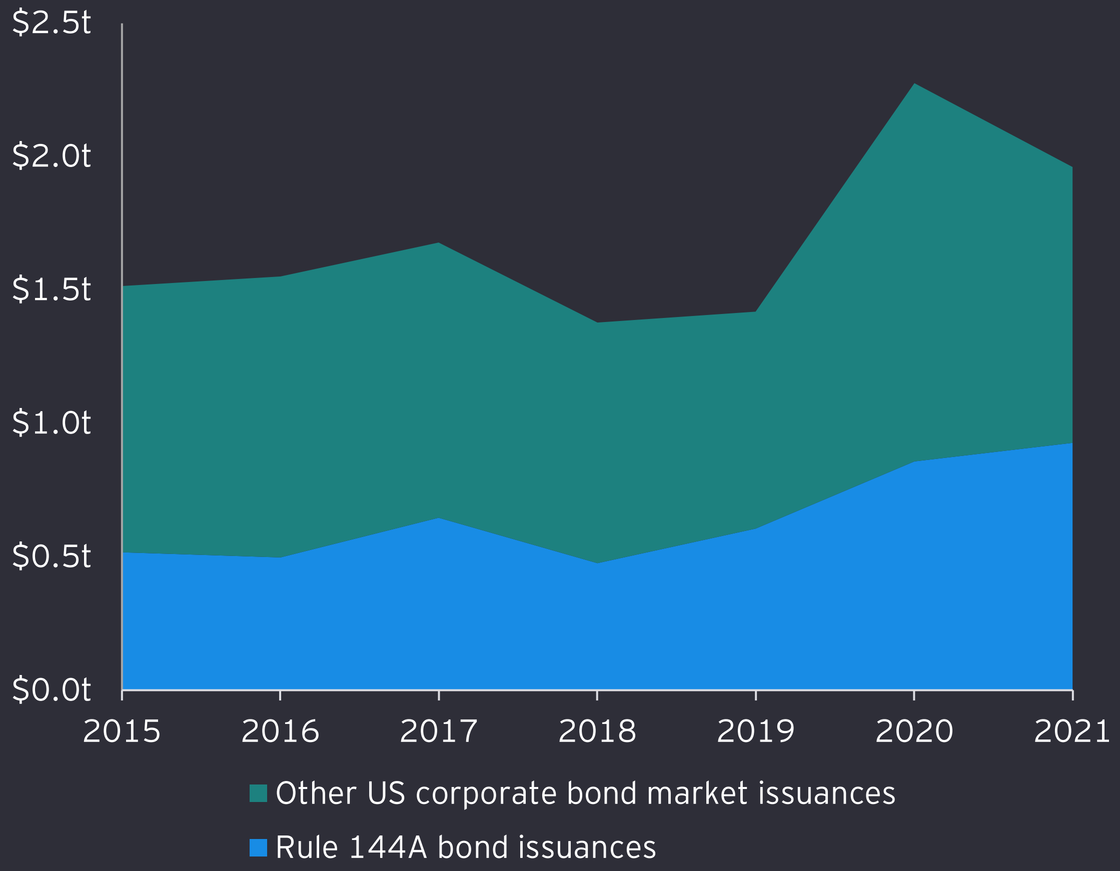
100 bps
illiquidity premium

13% increase in borrowing costs

*for an illustrative 7.5% rate high-yield bond*

*Specifically, the survey question asked, "If dealers cannot continue to publish quotations on quotation mediums consistent with current practice, what is the resulting illiquidity premium expected for 1) investment grade and 2) high-yield 144A-for-life bonds in primary issuances where the issuers of such bonds do not make information publicly available?" Survey responses reflect an estimate of what respondents think will happen in the relevant markets. The actual impact, however, may be significantly different as a similar market dynamic has not been previously encountered.

# US corporate bond market issuances, 2015-2021

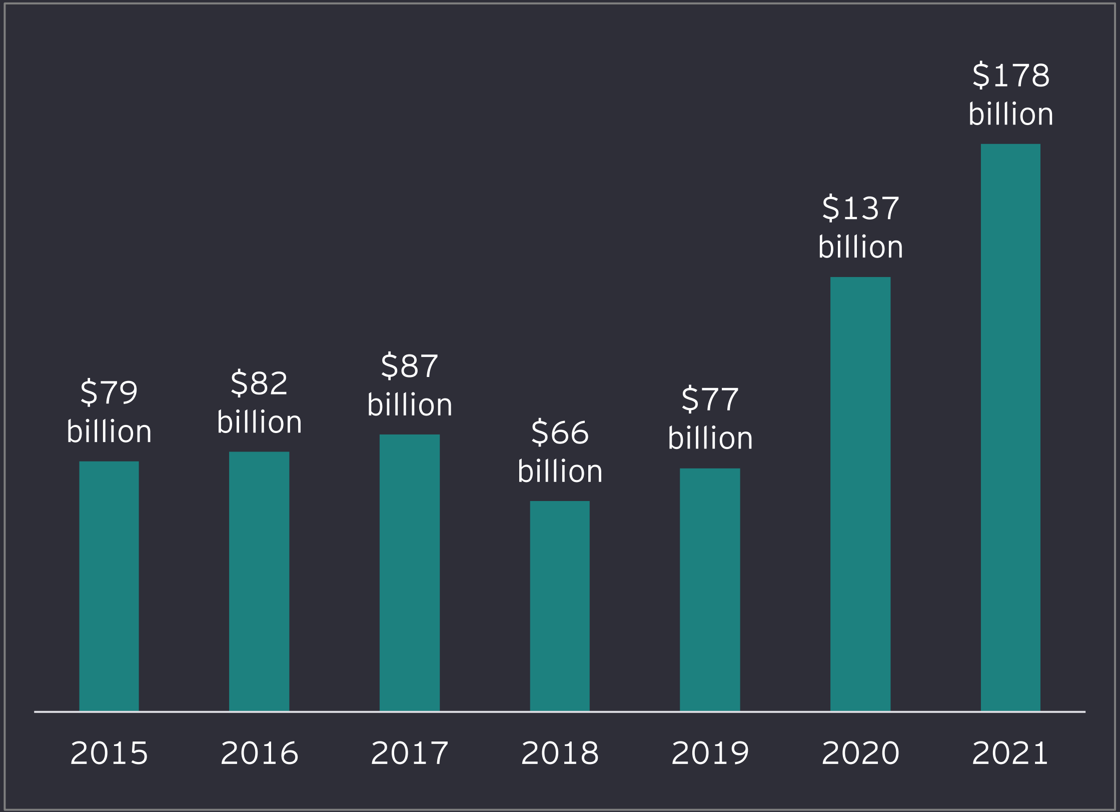



- US corporate bond market issuances grew from $1.5 trillion in 2015 to $2.0 trillion in 2021
- Rule 144A issuances are a significant share of US corporate bond market issuances
  - Rule 144A bond issuances increased from more than $500 billion in 2015 to more than $900 billion in 2021
  - In 2021 Rule 144A bond issuances represented nearly 50% of US corporate bond market issuances

Note: The figure provides an overview of the US corporate bond market. This is comprised of both domestic and foreign companies issuing within the US market. The figure displays the total amount sold within the US market. All issues with maturities of one year or less, as well as CDs, have been excluded.
Source: Refinitiv; EY analysis.

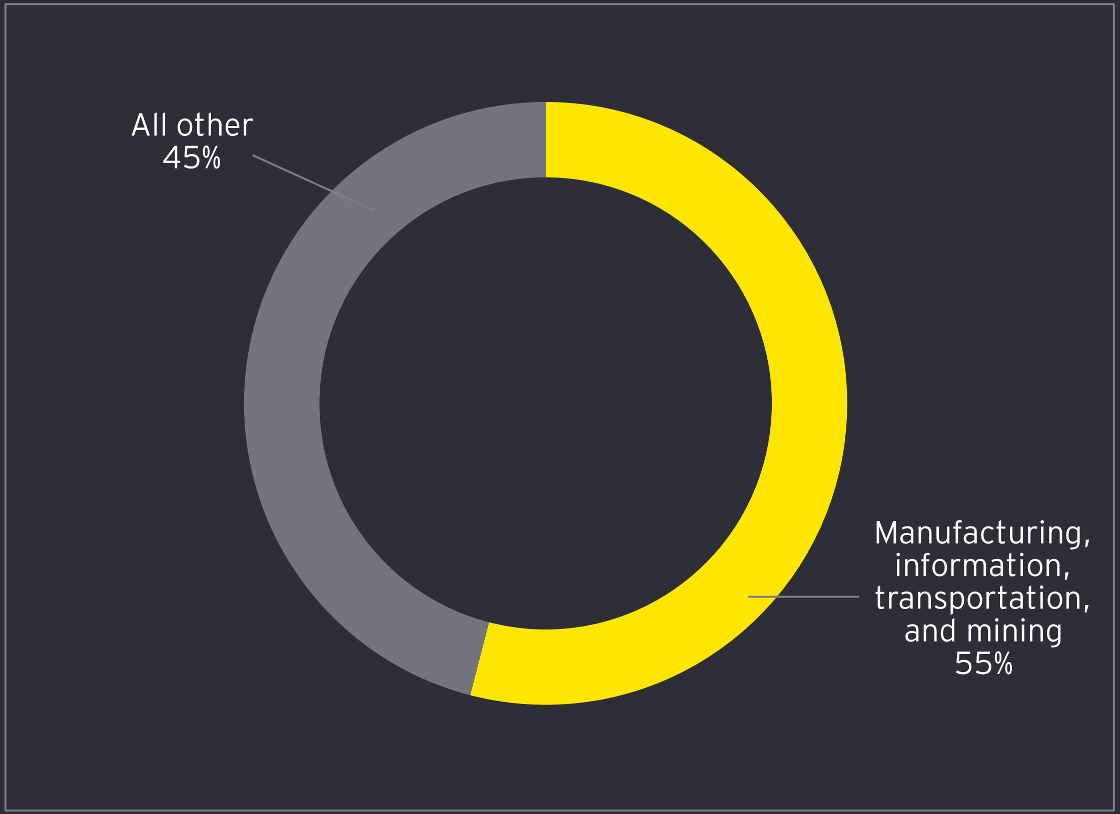
# Rule 144A bond issuances by private US companies in US corporate bond market

### Rule 144A bond issuances by private US companies




Source: Refinitiv; EY analysis.

### Industry composition of nonfinancial private US companies issuing Rule 144A bonds, share by industry, 2015-2021 average




Source: Refinitiv; EY analysis.