

DESIGNING A EUROPEAN SUMMARY PROSPECTUS USING BEHAVIOURAL INSIGHTS



CFA Institute

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Our mission is to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society.

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1. Introduction

CFA Institute advocates for more disclosure in order to advance our mission of market fairness, market integrity, and investor protection. This desire for more disclosure is typically shared by regulators and many market participants. Implicit in this posture is an assumption of investor rationality—that more disclosure will lead to more informed decision-making by investors.

While retail consumer behaviour that does not conform to economic rationality has been well documented, there is growing evidence that professional financial intermediaries and investors also suffer from irrationalities and behavioural biases (Spindler, 2011). For this reason, it is necessary to examine the paradigm of securities markets regulations with a critical, behavioural economics-informed approach. An obvious candidate for this examination is the regulation of disclosure requirements.

Information overload is a common complaint related to disclosure regimes. Increased disclosure requirements can backfire when investors are not able to absorb the quantity of information presented, which can be thought of as increasing transaction costs (in particular, search costs) for the market participant (Spindler, 2011). Another complaint is the use of boilerplate disclosure; this results in the presentation of generic information that satisfies compliance considerations but lacks pertinent information concerning the company, security, or product.

One example of disclosure that has been criticized involves summaries of prospectuses under the European Union (EU) prospectus directive. The prospectus is a legal document that presents salient company and issuance information regarding securities admitted to trading on a public market, including the terms and risks of an investment. The structure of this document is a key concern for investment management professionals as it is a critical component of the investment decision-making process. However, prospectuses are anecdotally known to be very long with large sections of boilerplate that tend to limit the ability of even professional investors to comprehend the contents. For this reason, prospectus summaries are typically generated to highlight the key areas of interest.

However, even these summaries can often run up to dozens of pages and likely do not function as intended—as a concise summary of the full prospectus. Currently, the EU is negotiating an update to the prospectus directive—namely, the prospectus regulation, which, by virtue of being a regulation and not a directive, will enforce common disclosure standards across the member states. This change is also being used to improve certain aspects of prospectus design, including the summary disclosure regime.

Currently, the prospectus directive prescribes a maximum summary length of 15 pages, or 7% of the prospectus length, whichever is longer. This is scheduled to be replaced under the prospectus regulation with a fixed page limit of around seven pages. This change is consistent with one of the main prescriptions of behavioural insights: simplification. However, while a fixed page limit will force some degree of simplification by default, there are further behavioural insights that could be applied to improve disclosure quality.

In this paper, we propose a template for the page-limited summary prospectus that is informed by behavioural insights documented in the literature. In particular, the key insights taken into account are the importance of:

- standardisation to improve comparability;
- increased use of images to improve comprehension;
- an emphasis on salience; and
- design that promotes comprehension on monitors and portable devices.

2. The Prospectus Directive and Regulation

The ongoing negotiations surrounding the prospectus regulation in the EU are a good chance to apply some behavioural insights to disclosure design. In Europe, the prospectus directive provides for an EU-wide regime for capital market prospectuses, which are required when a public offer of securities (equity or debt) is made or admission on a regulated market is sought.

However, since EU directives only require minimum harmonization, EU member states may apply the rules differently, such that prospectus rules vary between member states. For example, the rules on exemption thresholds, advertising rules, and the prospectus approval processes by national regulators vary from one country to another. Harmonizing these rules via application of an EU regulation is one of the main motivators for the prospectus regulation. The ambition behind the harmonized regime is to encourage more market-based capital allocation throughout the EU by creating a common framework and reduced regulatory burdens for issuers. Consequently, the prospectus regulation forms an important part of the European Commission's (EC) Capital Markets Union (CMU) initiative.

The prospectus regulation can be thought of as comprising the following three parts:

1. amendment and subsequent harmonization of existing prospectus rules across EU member states;
2. creation of an EU growth prospectus to encourage small and medium enterprise (SME) financing (i.e., a specific prospectus regime for securities listed on an "EU Growth Market", a category of trading venue); and
3. redesign of the prospectus summary.

Agreement on the Level 1 stage of the prospectus regulation was reached in December 2016, with Level 2 deliberations taking place in Q1 2017.

2.1. Amendments to the prospectus directive

Changes to existing prospectus directive rules include:

- An issuance threshold of €1 million below which no prospectus is needed, with member states being allowed discretion to grant exemptions from creating a prospectus for issuances up to €8 million.
- For issuances made under the prospectus exemption, the maximum number of allowable investors is to be 150.
- The distinction between retail and wholesale offerings is to be kept at a denomination of €100,000.

2.2. Exemptions from the prospectus regulation

The EU growth prospectus is an initiative designed to improve SMEs' access to capital markets in the EU. SMEs will be defined by the prospectus regulation to include companies that are listed on an SME growth market as long as their market capitalization is below €500 million. Further, all issuances below €20 million made by mid-cap firms with no more than 499 employees (provided they don't have any securities traded on a multilateral trading facility [MTF]) will also be allowed to use the slimmed-down growth prospectus in place of the full prospectus regime.

2.3. Summary prospectus proposal

In the prospectus regulation, the prospectus summary is redesigned to improve transparency. Typical summaries under the current prospectus directive are often dozens of pages long. Currently, there is a five-part summary, the length of which is limited to 15 pages or 7% of the total length of the prospectus.

In the prospectus regulation, the maximum length of the summary prospectus will be prescribed to be seven sides of A4 paper. The new prospectus summary would have three main sections covering key information on the issuer, the security, and the offer/admission, respectively. For each of them, general headings will be introduced, as well as indications on their content, but issuers would have latitude to develop brief narratives and select the information that is material.

In order to enhance the summary's readability, no hyperlinks or cross-referencing to other parts of the summary document would be allowed.

It is important to note that the issuer will not be held liable on the basis of the summary prospectus alone. No summary will be required for non-equity securities trading on a regulated market (for qualified investors) in an attempt to encourage non-equity trading to move from over-the-counter markets to exchanges.

3. Behavioural Insights Relevant for a Prospectus

Behavioural biases and information asymmetry are two of the four commonly considered categories of market failure (Erta, Hunt, Iscenko, and Brambley, 2013), the others being market power and externalities. Disclosure requirements, such as prospectuses, are attempts to deal with problems of information asymmetry. Behavioural biases, however, can frustrate these kinds of interventions. Behavioural studies show that when consumers are biased, it is critical that information not only be presented but be presented in the right way to overcome these biases.

In their report, Erta, et al. (2013) present 10 biases common in financial services:

1. the present bias (a preference for immediate gratification)
2. reference dependence (i.e., loss aversion)
3. regret
4. overconfidence
5. over-extrapolation
6. projection bias
7. mental accounting (treating fungible assets differently depending on their purpose)
8. framing (the importance of salience due to limited attention)
9. rules of thumb
10. persuasion (or social influence)

Of these, the key issue for information disclosure (such as a prospectus summary) is framing. The authors note that framing can cause differing responses to the same piece of information by changing the way in which information is presented. That is, by making certain information more or less salient, the framer can direct the reader's attention towards or away from this information and thereby trigger some other bias (such as loss

aversion) in order to achieve a desired decision by the reader. The framer can also increase the salience of a given piece of information in order to attract attention away from some other, less desirable, piece of information.

Typically, framing in financial services takes one of two forms Erta, et al. (2013). First, complex and opaque pricing strategies can be used, which are designed to mask the total cost of a service behind an attractive introductory or teaser price that can be emphasized in marketing material. Second, formatting and presentation decisions in marketing material can be taken that attempt to exploit biases, such as loss aversion, overconfidence, and projection bias, by:

- including irrelevant information to distort or cloud assessment of relevant information;
- including information designed to induce an emotional response; and
- presenting information in a way that triggers a particular rule of thumb or heuristic response.

While there is not yet unequivocal evidence that behaviourally informed information disclosures are effective (Lourenco, Ciriolo, Almeida, and Troussard, 2016), there are some broad principles behind which there is consensus. Specifically, there are three main issues to consider when taking a behavioural approach to disclosure requirements (Oxera, 2014):

1. design of the summary disclosure;
2. engagement of consumers; and
3. presentation of product information.

In order for the disclosed information to be useful to investors, those investors must be engaged with the disclosure, which means the level of engagement is a first-order determinant of the success of the disclosure regime. Investor engagement, in turn, is largely dependent on the presentation of product information. In other words, the success of the disclosure regime is heavily dependent on the presentation of product information. The broad principles that should underlie the presentation of product information are outlined below:

- **SIMPLICITY:** An effort should be made to simplify the product disclosure, including the language used, as well as to limit its length.

- **SALIENCE:** The most important information should be where investors focus their attention. For example, headings are more engaging than the body of text, as are highlighted boxes, graphical representation of information, images, the front pages of documents (rather than the overleaf pages), notices to the right of the page, and those printed in a different color.
- **STANDARDISATION:** The appearance and framing of disclosures should be standardised as far as possible to enable comparability across disclosures.

A separate insight relates to the medium through which disclosure is consumed—computer monitors and screens on portable devices. The key result here is that presenting information on a screen in a vertical or portrait format causes readers to skim through the information. This suggests the necessity of having a design that is also optimized for mobile devices.

3.1. Challenges with the behavioural approach

Erta, et al. (2013) note that there is no good evidence that behaviourally informed information disclosures are effective. In fact, information that attempts to educate consumers about their biases appears to have little impact. Behavioural economics empirically tests behavioural assumptions in the context of a given experiment. Unfortunately, it is not clear whether these findings can be generalized.

Further, it is possible that creating a successful summary disclosure will cause consumers to ignore the full disclosure.

4. Designing Product Disclosure in a Behavioural Way

4.1. Contents of the summary prospectus

The prospectus summary as envisioned will be seven pages in length (with an appropriate minimum font size) and comprise the following sections:

- Introduction
 - ▲ the issuer
 - ▲ warnings
- Key Information on the Issuer
 - ▲ details on the issuer
 - ▲ details on the auditor
- Key Financial Information about the Issuer
 - ▲ selected historical financial information
 - consolidated statement of financial performance
 - consolidated statement of financial position
 - consolidated statement of cash flows
 - ▲ key risk factors
- Key Information on the Securities
 - ▲ main features

- ▲ dividend rights, voting rights, rights to attend shareholders' meetings, preferential subscription rights, liquidation rights, buyback of shares, restrictions on the free transferability of the securities, dividend policy
- ▲ trading venue
- ▲ key risk factors
- Key Information on the Offer
 - ▲ conditions and timetable
 - ▲ motivation for offer

4.2. Our proposal for the summary prospectus

In proposing our own template for the summary prospectus, we take these sections as given and propose a disclosure that is informed by behavioural insights to the maximum practicable extent. Informed by the discussion of behavioural insights above, as well as certain sections from the prospectus for Takeaway.com N.V. (Takeaway.com N.V., 2016) and the Safran Group 2016 “Half-Year Financial Report” (Safran Group, 2016), we follow the principles listed below in designing our summary prospectus:

- **SALIENCE:** Main sections are to be placed in highlighted boxes, rather than appearing as headings with a body of text below the heading.
- **STANDARDISATION:** A standardised design is to be used for the presentation of information in the subsections of each main section.
- **SIMPLICITY:** Text is to be replaced with graphical information wherever possible.

An additional benefit of this focus on salience, standardization, and simplicity should be to enable the presentation of the summary prospectus to be more easily tailored to different media (i.e. print versus smartphone).

4.2.1. Introduction and Key Information on the Issuer

The Introduction and Key Information on the Issuer sections do not have much scope for incorporating behavioural insights into the design as only basic information is being

presented. The key feature is salience—specifically, placing warnings at the top of the page in a highlighted text box:

WARNINGS	
■	Investors can lose all of, or part of, the capital invested in shares issued by FRANAS.
■	This summary must be read as an introduction only and does not substitute for the full prospectus.

The warnings cover two points:

1. The summary prospectus is not intended to be read exclusively on its own—the full prospectus must be read to make an informed investment decision.
2. Investors may lose all or part of their invested capital as a result of the investment.

Erta, et al. (2013) report, in the context of investment products, that when interpreting the range of returns, consumers made more conservative choices when information on a fund's losses was emphasized. This highlights the importance of constantly reminding readers of a prospectus that the investment is risky.

Additionally, we frequently present information in tabular form rather than in plain text. For example, basic information about the issuer, largest shareholders, and members of the Board of Directors is summarized in tables such as the following:

Shareholder	No. of outstanding shares owned	% of outstanding shares
Airvan Group SE	4,749,841 shares	12.56%
THM Composites	3,214,744 shares	8.50%
Southprop, Inc.	2,754,895 shares	7.28%
TZN Sovereign Wealth Fund	2,214,542 shares	5.86%
Baimler Aerospace	2,011,421 shares	5.32%

4.2.2. Key Financial Information about the Issuer

The Key Financial Information about the Issuer section focuses on all three behavioural insights: simplicity, standardisation, and salience. Risk factors for the firm's business are presented at the head of this section in an effort to emphasize what is most salient. Further, highlighted warnings are presented in two locations:

1. A warning about the possible unrepresentativeness of historical financial performance in determining future performance appears immediately prior to the consolidated financial statements.
2. A warning that the full prospectus must be consulted to view the complete financial statements appears immediately prior to the discussion of historical financial performance.

The risk factors section also exhibits a focus on simplicity and standardisation. First, risk factors are grouped into highlighted areas in order to create a visual distinction between the discussion of each risk factor. Second, color coding is used to identify the likelihood of each risk factor according to a high/medium/low scale, and the level of financial impact if the risk being described were to eventuate. Finally, the category of the risk factor is identified in order to provide the reader with a simple description of the risk being discussed.

Likelihood	HIGH	Financial Impact:	HIGH
1	<p>Category: Development. The Company's future is heavily dependent on the success of its new Open Rotor Engine (ORE) for aircraft. The engine is currently in development with a focus on meeting global noise regulations. The Company cannot give assurance that the aircraft engine will successfully meet these noise regulations or do so at an acceptable economic and performance cost for commercialization.</p>		

There is a fixed number of 10 risk factors in this section of the summary prospectus. These will be split into three categories of risks: firm-specific risks, macroeconomic risks, and risks related to the company's financial position. The cell-based design should enable this section to be standardised across issuers and counter the common criticism of risk factors degenerating into boilerplate. In our sample summary prospectus presented in the Section 6 Annex, we have left three risk factors empty to highlight the fact that only relevant risk factors need to be presented, even if this adds up to fewer than 10 risk factors.

4.2.3. Key Information on the Securities

The section on Key Information on the Securities does not have much scope for applying behavioural insights as it provides basic facts about the security being issued. The focus is on breaking up the text into tabular format as much as possible. For example, the discussion on gross proceeds would be presented as follows:

Offer size (gross proceeds)	€500 million
Expenses	€15 million
Net proceeds	€485 million

However, the section on security-specific risk factors (with a limit of five risk factors) can be remodeled with a focus on simplicity and standardisation, as with the risk factor section in Key Information on the Issuer:

Likelihood:	HIGH
1	Category: Dividends. The payment of any future dividends will depend on the Company's financial condition and results of operations, as well as on the Issuer's operating subsidiaries' distributions to the Issuer.

4.2.4. Key Information on the Offer

The Key Information on the Offer section does not have much scope for applying behavioural insights either, as it provides mostly facts about how to take advantage of the offer. Again, the focus is on breaking up the text as much as possible into tabular format. For example, the timetable section would be presented as follows:

Timetable

Subject to acceleration or extension of the timetable for, or withdrawal of, the Offering, the timetable below sets forth certain expected key dates for the Offering.

Event	Expected Date	Time CET
Start of Offering Period	1 January 2017	9:00
End of Offering Period for retail investors	14 January 2017	17:30
End of Offering Period for institutional investors	15 January 2017	14:00
Pricing and allocation	15 January 2017	
Commencement of trading	16 January 2017	9:00
Settlement	23 January 2017	9:00

5. Conclusion

In this report, we present a sample template for the EU summary prospectus as it relates to the EU prospectus regulation. Our design uses behavioural insights to create a template focusing on presenting salient information in a simple and standardised format in order to improve the readability of the summary prospectus and therefore improve information transparency in capital markets. Our template is presented in the Annex.¹

¹The company name, business, and all associated information presented in the Annex are fictitious and used for illustrative purposes only. This information does not purport to represent an actual issuer or issuance.

6. Annex: SUMMARY PROSPECTUS—FRANAS Aerospace SA (Fictitious Firm)

WARNINGS

- **Investors can lose all of, or part of, the capital invested in shares issued by FRANAS.**
- This summary must be read as an introduction **only** and **does not substitute** for the full prospectus.

The Issuer

Legal name	FRANAS Aerospace SA
Business name	FRANAS
Business	Manufacturing of aircraft engines and associated components and equipment.
Legal domicile	Limited liability company organised as société anonyme/naamloze vennootschap under the laws of Belgium and registered as number 0100.000.000.
Address	Rue du Champ de Mars, 23, 1050 Brussels
Telephone	+ 32 2 000 00 00 00
Date of offering	1 January 2017

This document is a summary of the full prospectus for FRANAS Aerospace SA and has been prepared in accordance with article 7 of the European prospectus regulation. The full offer and listing prospectus (“the prospectus”) for purposes of article 3 of the Regulation **MUST** be read in conjunction with this summary. The English version of this prospectus was approved by the Belgian Financial Services and Markets Authority (the FSMA) on 1 January 2017.

Details on the Issuer of the Securities

SHAREHOLDERS

As of the date of the prospectus, these shareholders of the Company own more than 5% of its outstanding shares:

Shareholder	No. of outstanding shares owned	% of outstanding shares
Airvan Group SE	4,749,841 shares	12.56%
THM Composites	3,214,744 shares	8.50%
Southprop, Inc.	2,754,895 shares	7.28%
TZN Sovereign Wealth Fund	2,214,542 shares	5.86%
Baimler Aerospace	2,011,421 shares	5.32%

MANAGEMENT

As of the date of the prospectus, the Board of Directors is composed as follows:

Name	Term Expiry	Function
Ms. A. Bee	2017	Director and CEO
Mr. C. Dee, MA, DPhil	2017	Chairman of the Board of Directors
Ms. E. Eff, CFA	2018	Director
Mr. G. Haich	2019	Director
Mr. I. Jay	2019	Director

The Board of Directors must be composed of between five and nine members, of which at least three are independent directors as defined by the Belgian Companies Code. Half of the members of the Company’s Board of Directors must be non-executive directors. Directors are appointed, are reappointed, and may be revoked by the shareholders’ meeting with a simple majority of the votes cast. Pursuant to the Articles of Association, the directors serve terms of up to four years. Directors whose term has come to an end may be reappointed.

STATUTORY AUDITOR

Reboitte Accountants BV o.v.v.e. CVBA (“Reboitte”)

Risk Factors

Likelihood:	HIGH	Financial Impact:	HIGH
1	<p>Category: Development. The Company's future is heavily dependent on the success of its new Open Rotor Engine (ORE) for aircraft. The engine is currently in development with a focus on meeting global noise regulations. The Company cannot give assurance that the aircraft engine will successfully meet these noise regulations or do so at an acceptable economic and performance cost for commercialization.</p>		
Likelihood:	HIGH	Financial Impact:	MEDIUM
2	<p>Category: Market position. Due to the high costs of research and development associated with the ORE, the Company has had to prioritize its development over other possible improvements to its existing turbofan engine range. These decisions may prove to have been mistaken and may adversely affect the Company's competitive position in the existing turbofan market.</p>		
Likelihood:	MEDIUM	Financial Impact:	HIGH
3	<p>Category: Development. The ORE may need to have its performance modified in a way that negatively impacts its performance and efficiency in order to meet noise regulations. This could have a material adverse impact on the Company's competitiveness in the aircraft engine market.</p>		
Likelihood:	MEDIUM	Financial Impact:	MEDIUM
4	<p>Category: Marketing. The Company may not be successful in efforts to market the ORE to aircraft manufacturers. The ORE is a new type of aircraft engine requiring some airframe modifications to maximise its potential. It will therefore be crucial that the Company successfully communicate the benefits the ORE can bring to its customers. The Company faces significant competition for aircraft engines, and if the Company does not compete effectively, its commercial opportunities may be reduced or eliminated.</p>		
Likelihood:	MEDIUM	Financial Impact:	LOW
5	<p>Category: Funding. Due to unforeseen challenges in the continuing development of the ORE programme, the Company may require additional funding, which may not be available to it on acceptable terms or at all. This risk is mitigated by the positive cash flow of the business. However, if necessary, raising additional capital may cause dilution to existing shareholders.</p>		
Likelihood:	LOW	Financial Impact:	MEDIUM
6	<p>Category: Intellectual property. The ORE programme has resulted in numerous patent applications by the Company, which may yet not be approved. If these patent applications are not successful, the Company's future competitive position may be adversely affected as competitors will be able to develop their own open rotor designs.</p>		
Likelihood:	LOW	Financial Impact:	HIGH
7	<p>Category: Regulatory approval. The certification processes of the Federal Aviation Administration (FAA) and the European Aviation Safety Agency (EASA) are lengthy and time consuming, and if the Company is ultimately unable to obtain regulatory approval for the ORE, the Company's business will be substantially harmed. The Company has not completed the certification of a new engine type since the DGN-67 turbofan design was certified in 1994.</p>		
Likelihood:		Financial Impact:	
8			
Likelihood:		Financial Impact:	
9			
Likelihood:		Financial Impact:	
10			

What Is the Key Financial Information Regarding the Issuer?

FRANAS's consolidated financial statements have been prepared according to International Financial Reporting Standards (IFRS).

The Company's historical results are not necessarily indicative of the results to be expected in the future.

Statement of Financial Performance—Highlights

In millions of euros	FY 2014	FY 2015
Revenue	17,546	19,745
Cost of sales	5,211	5,480
Gross margin	70%	72%
SG&A expenses	(2,100)	(2,548)
R&D expenses	(5,113)	(6,085)
Operating income	5,122	5,632
Total one-off items	(567)	(1,075)
Profit from operations	4,555	4,557
Operating margin	26%	23%
Net financial income (loss)	(81)	(112)
Income tax	(654)	(574)
Net income from discontinued operations	20	4
Profit attributable to owners of the parent	3,840	3,875
EPS (in euros)	2.41	2.44

Statement of Financial Position—Highlights

In millions of euros	1 Dec 2014	1 Dec 2015
Tangible assets	17,957	21,421
Goodwill and intangible assets	4,001	4,429
Other non-current assets	808	1,052
Operating working capital	711	785
Total assets	23,478	27,688
Non-current liabilities	4,953	5,015
Other current liabilities	3,519	3,850
Total liabilities	8,472	8,865
Shareholders' equity	4,745	4,687
Retained earnings	10,261	14,136

Statement of Cash Flow—Highlights

In millions of euros	FY2014	FY2015
Net cash from operating activities	5,160	5,696
Change in WC	(144)	(74)
Capex (tangible assets)	(3,451)	(4,154)
Capex (intangible assets)	(745)	(1,022)
Net cash used in investing activities	(4,340)	(5,250)
Net cash used in financing activities	(115)	62
Cash and cash equivalents	705	308

Notes on the Company's Financial Information

Refer to the full prospectus for a full discussion of the Company's financial position and performance.

FRANAS is an Original Equipment Manufacturer (OEM) of the DGN-67 aircraft engine family (72% of revenue in FY2015) that also provides after-sales service contracts (28% of revenue in FY2015), typically of a 10-year duration.

- The increase in one-off items in FY2015 was as a result of the costs of restructuring the ORE programme after several developmental failures in FY2014.
- The net financial income included €112 million in foreign exchange losses in FY2015. The EPS figure in FY2015 is based on 1,590,364,976 shares outstanding.
- In FY2015, the cash flow reconciliation to adjusted net profit included amortization of goodwill and intangible assets for €594 million, net provisions for €127 million, and depreciation for €690 million.
- There was an increase in working capital of €274 million in FY2015 to cope with increased rates of production for the DGN-67 engine programme.
- The increase in capital expenditure during FY2015 is associated with the ramp-up of the ORE programme.
- There has been an increase in provisions of €127 million, mostly linked to service contracts for DGN-67 engines.

Key Information on the Securities

WHAT ARE THE MAIN FEATURES OF THE SECURITIES?

The new Shares to be issued will be of the same class as the existing Shares. They will carry the right to a dividend with respect to the financial year that started on 1 January 2017 and, from the date of their issue, will carry the right to any distribution made by FRANAS. Consequently, they will be, from the date of their admission to trading, immediately fungible with the existing Shares already traded on the regulated markets of Euronext Brussels and Euronext Amsterdam. The Offering is in euros.

RIGHT TO ATTEND SHAREHOLDERS' MEETINGS

All FRANAS Shareholders are entitled to attend shareholders' meetings of FRANAS, take part in the deliberations, and, within the limits prescribed by the Belgian Companies Code and the FRANAS Articles, vote, provided they have complied with the formalities for admission set out in the FRANAS Articles.

VOTING RIGHTS

Any shareholder of FRANAS with the right to vote may either personally participate in the meeting or give a proxy to another person, who need not be a shareholder, to represent him or her at the meeting. A shareholder may designate, for a given meeting, only one person as proxy holder, except in circumstances where Belgian law allows the designation of multiple proxy holders.

PREFERENTIAL SUBSCRIPTION RIGHTS

In the event of a share capital increase by way of the issue of new shares, or in the event of an issue of Equity Interests, all FRANAS Shareholders will have a Preference Right to subscribe for any such Equity Interests as set out in and in accordance with article 592 of the Belgian Companies Code.

LIQUIDATION RIGHTS

In the event of the dissolution and liquidation of FRANAS, the assets remaining after payment of all debts and liquidation expenses shall be distributed to the holders of shares of FRANAS, each receiving a sum proportional to the number of FRANAS Shares held by them.

BUYBACK OF SHARES

In accordance with its Articles of Association and the Belgian Companies Code, the Company can purchase and sell its own shares only by virtue of a special shareholders' resolution. The prior approval of the shareholders is not required if the Company purchases its shares to offer them to its personnel.

RESTRICTIONS ON THE FREE TRANSFERABILITY OF THE SECURITIES

All shares are freely transferable.

DIVIDEND POLICY

All shares participate equally in FRANAS's profits. The New Ordinary Shares will have the same rights in relation to dividends and other distributions.

WHERE WILL THE SECURITIES BE TRADED?

An application has been made in order to admit the New Shares to trading on the regulated market of Euronext Brussels and Euronext Amsterdam. The new Shares will be traded under the same ISIN code as the existing Shares (BE0000000000) and carrying symbol "FRANA".

What Are the Key Risks That Are Specific to the Securities?

	Likelihood:	HIGH
1	Category: Dividends. The payment of any future dividends will depend on the Company's financial condition and results of operations, as well as on the Issuer's operating subsidiaries' distributions to the Issuer.	
	Likelihood:	HIGH
2	Category: Market price. The Issuer's Ordinary Share price may fluctuate, and as a result, investors may experience losses on their investment.	
	Likelihood:	HIGH
	Likelihood:	MEDIUM
3	Category: Dilution. Future issuances of Ordinary Shares or debt and equity securities convertible into Ordinary Shares by the Issuer, or the perception thereof, may adversely affect the market price of the Ordinary Shares, and any future issuance of Ordinary Shares may dilute investors' shareholdings.	
	Likelihood:	LOW
4	Category: Market price. The provisions in the Articles of Association and the granting of the Call Option may delay, discourage, or prevent takeover that may be favourable to certain Shareholders.	
	Likelihood:	LOW
5	Category: Legal. The rights and responsibilities of a Shareholder are governed by Belgian law and will differ in some respects from the rights and obligations of shareholders under the laws of other jurisdictions, and the shareholder rights under Belgian law may not be as clearly established as the rights of a shareholder established under the laws of some other jurisdictions.	

Why Has the Issuer Produced This Prospectus?

FRANAS believes that the Offering will provide it with additional capital to support and develop further growth of the Company (including, among other things, funding the costs of continuing development of the ORE programme) and to strengthen its operations (including, among other things, the hiring of additional staff).

The Issuer aims to raise the following amounts:

Offer size (gross proceeds)	€500 million
Expenses	€15 million
Net proceeds	€485 million

Based on the assumptions set forth above, the Company intends to use the expected net proceeds from the primary component of the Offering in part as follows:

€400 million	Fund development and commercialisation of its ORE programme.
€50 million	Repay amounts outstanding under the Revolving Credit Facility (as of 1 January 2017, approximately €70 million is outstanding).

The remainder of the net proceeds is expected to be used to provide the Company with additional flexibility for organic and inorganic growth opportunities that may arise and for general corporate purposes.

Key Information on the Offer

THE OFFER

The Offering consists of a public offering in Belgium to institutional and retail investors. The Issuer is offering up to 19,230,769 New Offer Shares to raise approximately €500 million in gross proceeds, not including any Over-Allotment Shares. Assuming no exercise of the Over-Allotment Option and an Offer Price at the bottom of the Offer Price Range, the Offer Shares will constitute not more than 1.21% of the issued Ordinary Shares. Assuming the Over-Allotment Option is fully exercised and the Offer Price is at the bottom of the Offer Price Range, the Offer Shares will constitute not more than 1.39% of the issued Ordinary Shares.

OVER-ALLOTMENT

The Over-Allotment Shareholders have granted the Joint Global Coordinators, on behalf of the Underwriters, the Over-Allotment Option, exercisable within 30 calendar days after the First Trading Date, pursuant to which the Joint Global Coordinators (on behalf of the Underwriters) may require the Over-Allotment Shareholders to sell at the Offer Price up to 2,884,615 Over-Allotment Shares, comprising up to 15% of the total number of Offer Shares (not including any Over-Allotment Shares) sold in the Offering, to cover over-allotments or short positions, if any, in connection with the Offering.

TIMETABLE

Subject to acceleration or extension of the timetable for, or withdrawal of, the Offering, the timetable below sets forth certain expected key dates for the Offering.

Event	Expected Date	Time CET
Start of Offering Period	1 January 2017	9:00
End of Offering Period for retail investors	14 January 2017	17:30
End of Offering Period for institutional investors	15 January 2017	14:00
Pricing and allocation	15 January 2017	
Commencement of trading	16 January 2017	9:00
Settlement	23 January 2017	9:00

OFFER PRICE

The Offer Price is expected to be in the range of €26 to €28 (inclusive) per Offer Share. The Offer Price and the exact number of Offer Shares will be determined on the basis of a book-building process. The Offer Price may be set within, above, or below the Offer Price Range. The Offer Price Range is an indicative price range. The Offer Price and the exact number of Offer Shares offered will be determined by the Issuer and the Selling Shareholders, in agreement with the Joint Global Coordinators, after the end of the Offering Period, subject to any acceleration or extension, on the basis of the book-building process and taking into account economic and market conditions, a qualitative and quantitative assessment of demand for the Offer Shares, and other factors deemed appropriate.

SUBSCRIPTION AND ALLOCATION

Retail Investors can subscribe for Offer Shares only on a market order basis. This means that Retail Investors will be bound to purchase and pay for the Offer Shares as indicated in their subscriptions, to the extent such Offer Shares are allocated to them, at the Offer Price, even if the Offer Price is above the upper end of the Offer Price Range (if applicable, as amended). Retail Investors can submit their subscriptions through their own financial intermediary. The financial intermediary will be responsible for collecting subscriptions from Belgian Retail Investors and for submitting their subscriptions to BCM ROMA as the retail coordinator (the "Retail Coordinator").

PAYMENT, DELIVERY, CLEARING AND SETTLEMENT

Payment (in euros) for and delivery of the Offer Shares will take place on the Settlement Date. Taxes and expenses, if any, must be borne by the investor. Delivery of the Offer Shares will take place on the Settlement Date, through the book-entry facilities of Superclear Belgium, in accordance with its normal settlement procedures applicable to equity securities and against payment (in euros) for the Offer Shares and the Over-Allotment Shares, if applicable, in immediately available funds.

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