

On 1 August 2014, a new amendment to the Act on Bonds - the Act No. 137/2014 Coll. - came into effect, the purpose of which is to loosen the regulation of bond law and to provide issuers and investors with even more liberty in setting their mutual rights and obligations.

- There is now increased significance on the bond issue terms and conditions being the fundamental contracting document between the issuer and investor.
 - The bond issue terms and conditions may stipulate different provisions to the statutory scope of so-called “changes of principal character”. In these instances, the issuer must always have obtained the opinion from the meeting of bond owners. Save for the exception of a proposal for a change in the bond issue terms and conditions requiring consent of the meeting of bond owners, this scope may be either narrowed (e.g. the consent will not be required in case of merger of the issuer) or widened.
 - The bond issue terms and conditions may establish various subordination levels between various issues of subordinate bonds and even between various rights attached to the same subordinate bond.
- Regulation on material requirements for bonds is now becoming more liberal.
 - The formal requirements for a documentary bond have been substantially reduced and no longer contain the necessity of stating that it is a bond. A documentary bond can be validly issued if the deed contains the issuer’s identification, nominal value, information on yield, information on maturity, identification of the bond owner and the issuer’s signature.
 - The maturity of bond may be determined not only by its date but also another specified occurrence. This occurrence must be specific and certain to occur.
 - Bonds may be issued completely with no yield whatsoever – i.e. that the yield is not determined even by the issue discount (the difference between the bond’s nominal value and its lower issue rate).
- The amendment has regulated a special conditioned debt security, to which a right to receive payment of a certain outstanding amount is attached, which right however, as opposed to bond, is even a partially depending on whether a certain circumstance occurs or not. This conditioned debt security is not a bond, yet the legislator has admitted that it may be subjected, either fully or partially, to bond law, doing so by reference in the bond issue terms and conditions. The conditioned debt security will probably be used, above all, in situations where the issuer and investor are interested in issuance of a debt security, within which a part of the commercial risk is shifted to the investor, which fact will regularly be compensated by a higher yield.

Should you have any questions regarding the amendment to the Act on Bonds, please do not hesitate to contact your usual Squire Patton Boggs lawyer or any of those listed in this document.

The contents of this update are not intended to serve as legal advice related to individual situations or as legal opinions concerning such situations nor should they be considered a substitute for taking legal advice.

© Squire Patton Boggs.