

BASICS

WHAT'S IN A NAME?

BASICS are anything but basic. BASICS, or Basic Structured Income Certificates, are another retail bond market innovation from Incapital LLC. These securities represent a simple, direct means for individuals to invest in a diversified pool or basket of high grade bonds. BASICS are trust certificates that trade on a securities exchange, and they are rated by a rating agency. Each BASICS is a pass-through certificate that represents an interest in the assets of a trust, which holds a pool of bonds.

Although the concept sounds straightforward, the execution was anything but. As a result of explicit and implicit positions that the SEC had taken in the past, structuring required months of discussion between Morrison & Foerster attorneys and the SEC. Each BASICS trust may contain new issue registered debt securities, as well as debt securities that trade freely in the secondary market. The debt securities are or were offered separately from the BASICS trust, so an investor might choose to purchase a debt security on its own, or indirectly through BASICS, as part of a basket. Similar to offerings of structured products, the issuer of the underlying debt security (or reference security) does not participate in the offering of BASICS. Each BASICS trust may include retail bonds, like InterNotes, or other corporate bonds, as well as other types of debt securities. No newly issued debt security may represent over a specified percentage of a given trust. BASICS investors may access publicly available information concerning each of the underlying debt securities, as well as information about the BASICS trust.

Combining structured finance repackaging concepts with the needs of retail investors, Incapital can now offer a product that is state-of-the art. BASICS shares many of the benefits of exchange-traded funds or bond mutual funds—relatively low risk exposure to bonds and some measure of diversification. Unlike a bond fund, BASICS have a maturity and defined income stream. A bond fund may put principal at risk. BASICS pass through to investors the payments on the underlying debt securities. Also, the trusts frequently offer holders a survivor's option, or put right back to the trusts, in the event of a holder's death. So, when it comes to the fixed income piece of an investor's portfolio, BASICS address the basic needs of retail investors.