

MEMO# 22073

December 20, 2007

White Paper to Enhance Investment Grade Bond Protections

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TO: FIXED-INCOME ADVISORY COMMITTEE No. 41-07
MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 16-07 RE: WHITE PAPER TO ENHANCE
INVESTMENT GRADE BOND PROTECTIONS

The Credit Roundtable recently issued a white paper, “Improving Covenant Protections in the Investment Grade Bond Market,” that identifies shortcomings in current investment grade covenant packages and sets forth five model covenants as potential solutions. [\[1\]](#) The five model covenants relate to change-of-control, step-up coupons, limitations on liens and priority debt, reporting obligations, and voting by series. They were issued with the intent to “facilitate negotiations before bond offerings are launched, as well as during the marketing of new issues.”

Examples of provisions in the model covenants include:

Change-of-Control – adopt a standard definition of change-of-control which includes (i) any stock-for-stock merger, unless the issuer’s stockholders end up with more than 50% of the voting stock of the surviving company, and (ii) a sale of all or substantially all of the assets of the issuer;

Step-up Coupons – increase interest rates if more than one out of three identified ratings agencies cease to rate an issuer’s bonds; and

Reporting Obligations – require issuers that are no longer required to make SEC filings to continue to provide note holders with unaudited quarterly and audited annual financial statements, together with an MD&A and to make these reports available on a public-access website.

The white paper also calls for “verbatim disclosure of indenture provisions in offering

documents” instead of “plain English” because the Roundtable believes the exact wording of the provisions can be material to investors. It further includes a list of suggested questions that bond investors ask before investing in new investment grade offerings, to aid in the analysis of covenant packages that do not adopt the model covenants verbatim.

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endnotes

[1] See Press Release, The Credit Roundtable, Financial Leaders Propose Stronger Investment Grade Bond Protections (December 17, 2007). The white paper can be found at [http://admin.iimemberships.com:80/downloads_upload/creditrroundtable/Covenant White Paper publication copy.pdf](http://admin.iimemberships.com:80/downloads_upload/creditrroundtable/Covenant%20White%20Paper%20publication%20copy.pdf).

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