

## European Leveraged Finance Alliance

### *Updates from the Executive Committee*

- The European Leveraged Finance Alliance is working hard on initiatives that will further the remit set out in mission statement.
- In this inaugural volume of the ELFA Updates Series, we describe those initiatives and highlight some of their activities so far in 2019.
- We also set out the details of future events, those hosted by ELFA and our partners, and those we have been invited to participate in. Discounts to these events have generously been made available to ELFA members.
- We also highlight just a few of the benefits to being a member of ELFA.

**T**he Executive Committee, our members, Paul Clews, and I have been working hard over the past few months to establish the European Leveraged Finance Alliance and start work to achieve the goals set out in our mission statement.

This is the first volume of our ELFA Updates Series, a newsletter containing information about our initiatives, which fall for 2019 under three general categories:

Disclosure, Transparency, and Engagement; details on upcoming events; highlights of our member benefits; and tools available to members.

There is a lot of helpful information on our website – [www.elfainvestors.com](http://www.elfainvestors.com). We also have a members' area that is filled with helpful resources – request a password from Sabrina Fox by sending an email to [sfox@elfainvestors.com](mailto:sfox@elfainvestors.com).

## Our Mission Statement

**ELFA seeks to create a more transparent, efficient, and resilient leveraged finance market while acting as the voice of its investor community. To that end, our diverse forum of investors engages with other industry professionals in order to educate and to promote best practices and transparency.**

### Our Initiative Committees

#### Disclosure Committee

The aim of the disclosure committee for 2019 is to raise the effectiveness and efficiency of engagement regarding covenant terms during the primary market offering process.

Currently the committee is working on the first volume of our ELFA Diligence Series – a Roadshow Questionnaire with a standard set of questions for investors to ask at roadshows and one-to-one meetings with issuers. We expect to publish the Roadshow Questionnaire on our website soon.

#### Transparency Committee

This year, the goal of the transparency committee is to reduce the number of issuers relying on password-protected websites and other restrictions on the dissemination of information, including NDA-style representations.

The latter have started to appear in Reports covenants as being explicitly permitted under the covenants, with troubling implications for a public securities market.

In furtherance of this goal, the committee has published two papers under the ELFA Insights Series, a platform for all of the committees to share views on important issues to investors and the broader market.

The first volume of the series describes the essential elements of disclosure from an investors' perspective, comprising accessibility, consistency, and content.

The second volume of the series sets out a detailed study on the use of password-protected financial websites, explaining why the practice is problematic, laying out the regulatory framework, and summarising the results of our survey of over 50 investors.

## Our Initiative Committees (continued)

### Engagement Committee

The goal of the engagement committee is to facilitate strong engagement among market participants in order to support a healthy leveraged finance market. To this end, the committee has met with banks, law firms, and other market participants to gain insights on their role in the market and to establish direct lines of communication with them.



### Upcoming ELFA Events

#### 15 May: Members' Forum

Join the Executive Committee, the Board of ELFA, members and prospective members to discuss what ELFA has achieved so far, and to set priorities for the coming months. The Forum will be followed by a drinks reception. To RSVP, send an email to Sabrina Fox.

#### 18 June: Loans Seminar with Cadwalader, Wickersham & Taft

The agenda for our inaugural loans seminar is still being developed – stay connected through our LinkedIn profile and Twitter feed for updates, or check the events page on our website.

Contact Sabrina to register your interest in attending.

#### 25-26 June: LevFin Academy with Shearman & Sterling

Split over two mornings, the Academy's training programme will cover 'An Introduction to Leveraged Finance' on Tuesday 25 June, and 'Leveraged Finance: Advanced Topics' on Wednesday 26 June.

The training days promise to be an excellent learning and networking opportunity for all involved, providing an insight on key issues in leveraged finance and an update on current market trends. Attendees can participate in one or both of the sessions.

This year invitees include a number of the key financial sponsors, debt advisors and large corporates, as well as investment banks. Shearman & Sterling has tailored the panels to be of interest and relevance to all of those in attendance.

## ELFA Insights Series

The ELFA Insights Series is designed to provide a platform for investor members of ELFA to express their views about issues relating to disclosure, transparency, and market practices. The initiative reflects ELFA's remit to facilitate engagement by its members to the broader market and the general public.

The ELFA Insights Series is available to download from our website.

Each day will start with breakfast from 8:00 am and end at 12:15 pm, after which a light lunch will be served.

Limited spaces have been made available for ELFA members – contact Sabrina for more information.

### Representatives from ELFA will participate in the following upcoming events:

#### 21-23 May: Commercial Finance Association's 13th Annual International Lending Conference

The annual CFA ILC brings together major players in asset-based lending from the U.S., U.K., and Continental Europe. ELFA will be represented on a panel exploring instances of companies using flexibility in their credit documents to pull out valuable assets from lenders' credit support.

The registration fee for this three-day event is \$845. ELFA members will receive a 10% discount.

If you are interested in receiving more information about the event, visit the event page on the CFA website.

#### 22 May: S&P Global Ratings 18th Annual Leveraged Finance Conference

Hear about trends and developments driving today's leveraged finance conference at this free event. Spaces are limited, register on the S&P Ratings website to confirm your place by clicking here.

ELFA will participate on a panel at the event.



## Upcoming ELFA Events (cont.)

### 5 June: Alternative Credit Council Global Summit 2019

The ACC's Global Summit brings together attendees from the private credit lending space representing a breadth of strategies and viewpoints on the current market.

The theme of this year's Global Summit will be "Securing the Future." The event will provide the opportunity for private credit managers, investors, service providers and regulators within the sector to come together and discuss the future of private credit as this market continues to grow. ELFA will be represented on a panel at the event.

The event is free for AIMA and ACC members, regulators, and investors. For others, the registration fee is £495 + VAT.

If you have any questions about the programme for this event, please contact Nicholas Smith ([nsmith@aima.org](mailto:nsmith@aima.org) or +44 (0)20 7822 8380).

## ELFA Member Highlights

- ✓ Quarterly educational seminars for member firms with leading industry professionals – we have already hosted a seminar and panel discussion on stressed and distressed covenant analysis with Akin Gump, followed by a very well-attended drinks reception. Coming up in June, we are presenting a loans seminar together with Cadwalader, Wickersham & Taft, followed by a networking reception.
- ✓ A forum for investors to express their views with a single voice and see that these are reflected initiatives that emerge from ELFA, whether as a member of the Executive Committee, Board, or an initiative committee.
- ✓ Participation as a thought-leader to develop industry guidelines and standards to promote transparency and establish industry best practice.
- ✓ Educational initiatives, including ELFA Covenant Tips and Covenant Toolkits, designed to assist member firms in finding the risk in documentary provisions.



## Tools for ELFA Members



**Check out our website - [www.elfainvestors.com](http://www.elfainvestors.com) - for a wealth of information that is reserved for our members, including our popular "ELFA Covenant Tips".**

**T**hese helpful tips are designed to demystify key covenant terms – many of which have implications across the covenant package.

### ELFA Covenant Tip #6 as a great example:

Most covenant ratio tests allow the issuer to ignore debt incurred under permitted debt baskets on the calculation date. This allows issuers to, on the same day, raise maximum debt under the ratio before using the baskets. This is logical as the same result could be achieved by incurring ratio debt one day and permitted debt the very next day.

This exclusion can create issues however where the ratio is used for actions other than debt incurrence.

The Consolidated Leverage Ratio is also used to govern dividends, to calculate the acquired debt basket, to size certain permitted investment baskets, and in calculating portability.

This could lead to unexpected outcomes: for example, issuers have the ability to debt-finance dividends using permitted debt baskets where actual leverage is higher than the specified maximum leverage level.

To find this flexibility, look in the last paragraph of the "leverage ratio" definition for the proviso "pro forma effect shall not be given to (1) any indebtedness incurred on the date of [calculation] / [determination] pursuant to the second paragraph of the [debt covenant]"