Developing a Strong Debt Compliance Process

Understand | Integrate | Collaborate | Mitigate | Manage

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Agenda

- Executive summary
- Understanding default risk
- The AFP Debt Compliance Survey
- Building a strong debt compliance process
- Achieving five debt compliance objectives
- Benchmarking your company’s debt compliance
- Appendix
  - Estimating technical default risk
  - Writing a covenant checklist and questionnaires
  - About Debt Compliance Services
Executive Summary

- Treasury’s most misunderstood financial risk is its debt default risk, a risk that is seriously underestimated by speculative-grade grade companies
  - This often leads to inadequate debt compliance practices
- S&P’s latest annual 30-year default study shows the 5 year risk for hard defaults and rating downgrades ranges from 19% for As to 24% for Bs
- These transitions are symptoms of poor operating results, which will lead to technical defaults long before a hard default such as a missed payment
- Using S&P data, we estimate that the 5Y technical default risk ranges between these bounds:

<table>
<thead>
<tr>
<th>Bounds</th>
<th>A</th>
<th>BBB</th>
<th>BB</th>
<th>B</th>
<th>CCC/C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
<td>1%</td>
<td>2%</td>
<td>9%</td>
<td>21%</td>
<td>46%</td>
</tr>
<tr>
<td>Upper</td>
<td>8%</td>
<td>10%</td>
<td>19%</td>
<td>39%</td>
<td>56%</td>
</tr>
</tbody>
</table>

- While Treasury is not responsible for poor operating results, Treasury is responsible for managing lenders – and senior management – about these high probability covenant issues to maintain the company’s access to funding at the lowest possible cost
Executive Summary (cont’d)

- Treasury can only do this if it has a strong debt compliance process that comprehensively manages the current quarter, **gathering information about existing and potential covenant issues so that they can be monitored, managed and mitigated in future quarters**
- Using the results of the 2012 AFP Debt Compliance Survey, which was done in collaboration with Debt Compliance Services (DCS), we explain how to build a strong debt compliance process
- Using DCS’s grading system, we evaluate the effectiveness of the debt compliance processes of the 401 respondents on 10 criteria
  - 5 structuring criteria: objectives, responsibility, depth of coverage, accountability, and oversight
  - 5 executing criteria: the use of calendars, checklists, non-financial covenant reviews, prospective non-financial covenant reviews, and prospective covenant ratio and permitted basket practices
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- Executive summary
- **Understanding default risk**
- The AFP Debt Compliance Survey
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Default Risk Basics

- Two kinds of default
  - Hard defaults – missed payments, distressed debt exchanges, and bankruptcy filings (this is S&P’s definition of default in the statistics following)
  - Technical defaults – any other kind of missed debt obligation, such as broken ratios and permitted baskets, and non-financial covenant failures
- When found, defaults must be reported quickly, otherwise financial fraud
  - This includes any cascading defaults on other debt
  - Lenders will immediately want to know how long the default has existed, since the longer the period of default, the more 2% penalty interest is due and possibly higher waiver fees
  - There’s financial restatement and SOX citation risk, since ASC 470-10 requires the defaulted debt to be classified as short-term for any kind of default
  - The public disclosure can crater the stock price
- It will likely cost Treasury credibility or worse: “It was the worst month of my life. Every day I though I would be fired”, a client Treasurer speaking of a technical default
Default Risk Increases Over Time

- Per S&P, in five years, slightly more than 40% of BB’s were rated BB or better, while 60% have had credit downgrades, defaults, or became non-rated.

- More detail on the S&P transition rates will be provided in estimating the technical default risk.

Source: S&P’s 2012 Global Corporate Default Study and Rating Transitions, Table 21
Underestimated Default Risk

- Adverse selection may be a cause for the underestimation: if the speculative grade Treasurers really believed they had significant default risk, then perhaps they might not be working at the company!

- Regardless of the reasons, by underestimating their long-term risk, these companies are likely to implement inadequate debt compliance practices, which we see in the survey data

- And in years 3-5, when these companies need to be the most vigilant and proactive, they may have new, inexperienced compliance staff following an inadequate process

<table>
<thead>
<tr>
<th>S&amp;P Rating</th>
<th>AFP Debt Compliance Survey</th>
<th>S&amp;P’s 2012 Default Study</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>2.3%</td>
<td>0.6%</td>
</tr>
<tr>
<td>BBB</td>
<td>3.0%</td>
<td>2.2%</td>
</tr>
<tr>
<td>BB</td>
<td>5.0%</td>
<td>8.4%</td>
</tr>
<tr>
<td>B</td>
<td>4.2%</td>
<td>20.2%</td>
</tr>
</tbody>
</table>

- The investment grade companies are slightly overestimating their default risks, which does them no harm

- However, the speculative grade companies are seriously underestimating the long-term default risk of companies with their ratings
Estimating Technical Default Risk

- To estimate the probability of a technical default, we have developed a process with lower and upper bounds
  - As a lower bound, we believe – and so does 93% of AFP Survey believe – that the risk of a technical default must be at least equal to the hard default rate
  - The upper bound is a function of the frequency of technical defaults associated with the stress of credit downgrades, defaults and becoming non-rated, which we explain in the next two slides

- Summarizing our estimates, we believe that 5 year technical default risk lies between these lower and upper bounds:

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>BBB</th>
<th>BB</th>
<th>B</th>
<th>CCC/C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
<td>1%</td>
<td>2%</td>
<td>9%</td>
<td>21%</td>
<td>46%</td>
</tr>
<tr>
<td>Upper</td>
<td>8%</td>
<td>10%</td>
<td>19%</td>
<td>39%</td>
<td>56%</td>
</tr>
</tbody>
</table>
Understanding S&P Transition Rates …

How BB Credit Ratings Change Over 5 Years

Source: S&P’s 2012 Global Corporate Default Study and Rating Transitions, Table 21
...to Estimate Technical Default Risk

Our weightings are based on these considerations:

- In general, rating declines will be preceded by technical defaults, with two notch declines having a higher percentage of technical defaults than one notch declines.
- Rating declines are not linear: A drop from BB to B reflects a greater credit decline than a drop from A to BBB.
- Hard defaults (a missed payment, distressed debt exchange or a bankruptcy filing) most likely incurred technical defaults first.
- Companies generally become non-rated because the public debt has been bought out due to a large bank refinancing or an acquisition, with the former more likely as credit risk increases.

### 5 Year Time Horizon

<table>
<thead>
<tr>
<th>From Initial BB Rating To:</th>
<th>BB-Rated Transition Rates*</th>
<th>DCS Weighing</th>
<th>Technical Default Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>AA or AAA</td>
<td>0.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A</td>
<td>1.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BBB</td>
<td>12.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BB</td>
<td>28.9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>11.3%</td>
<td>20%</td>
<td>2.3%</td>
</tr>
<tr>
<td>CCC/C</td>
<td>1.4%</td>
<td>40%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Non-Rated</td>
<td>35.6%</td>
<td>30%</td>
<td>10.7%</td>
</tr>
<tr>
<td>Hard Default</td>
<td>9.0%</td>
<td>60%</td>
<td>5.4%</td>
</tr>
</tbody>
</table>

*Per S&P's 2012 Global Corporate Default Study and Rating Transitions, Table 21

Lower Bound (Hard Default Rate) 9.0%
Upper Bound 18.9%

See Appendix section for the calculations of other ratings.
The impact on the stock price will be the CFO’s and CEO’s biggest upset.

The out-of-pocket cost of a technical default is a function of total facilities, debt outstanding, and the waiver, legal and audit fees.

Many treasurers believe their bankers will forgive a technical default, but we suggest that few bankers and mutual fund lenders will pass up a $1M or more in penalty interest and waiver fees.

### Technical Default Scenario Description

<table>
<thead>
<tr>
<th>Description</th>
<th>Minor Reported before financials were issued</th>
<th>Medium Reported after one quarter of financials were issued</th>
<th>Significant Reported after two quarters of financials were issued</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Period of Default (weeks)</td>
<td>1</td>
<td>4</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>Financial Restatement of LT debt as ST</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Sox Deficiency/Material Weakness Citation</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Cascading cross-defaults</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Public disclosure of default</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Stock Price Guesstimates</td>
<td>No</td>
<td>-5%</td>
<td>-15%</td>
<td></td>
</tr>
<tr>
<td>Impact on Treasury’s Credibility</td>
<td>Minimal</td>
<td>Significant</td>
<td>Ugly</td>
<td></td>
</tr>
</tbody>
</table>

### Default Cost Analysis (000)

<table>
<thead>
<tr>
<th>Description</th>
<th>Minor</th>
<th>Medium</th>
<th>Significant</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Facility Debt</td>
<td>$750,000</td>
<td>$750,000</td>
<td>$750,000</td>
<td></td>
</tr>
<tr>
<td>Waiver fee on Facility (bp)</td>
<td>-</td>
<td>10</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>O/S Debt subject to 2% default interest</td>
<td>500,000</td>
<td>500,000</td>
<td>500,000</td>
<td></td>
</tr>
<tr>
<td>Bank Costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- 2% Default Interest</td>
<td>192</td>
<td>769</td>
<td>3,269</td>
<td></td>
</tr>
<tr>
<td>- Facility Waiver Fee</td>
<td>0</td>
<td>750</td>
<td>1,125</td>
<td></td>
</tr>
<tr>
<td>- Legal fees</td>
<td>20</td>
<td>200</td>
<td>400</td>
<td></td>
</tr>
<tr>
<td>- Audit fees</td>
<td>10</td>
<td>150</td>
<td>300</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$222</td>
<td>$1,869</td>
<td>$5,094</td>
<td></td>
</tr>
</tbody>
</table>

| Lower Bound Default Estimate              | 3.00% | 3.00% | 3.00% | 9.0% |
| Lower Bound Expected Loss                 | $7    | $56   | $153  | $216 |
| Upper Bound Technical Default Estimate    | 6.30% | 6.30% | 6.30% | 18.9%|
| Upper Bound Expected Loss                 | $14   | $118  | $321  | $453 |
Managing Catastrophic Risks Disconnect

Despite the higher probability of covenant violation compared to other common catastrophic risks, companies typically invest much more in insurance premiums and compliance costs to mitigate these other risks than they do to ensure their funding availability:

<table>
<thead>
<tr>
<th>Risk</th>
<th>Event</th>
<th>DCS Risk Estimate</th>
<th>Insurance, Investments &amp; Preventive Measures Taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property damage</td>
<td>Plant fire</td>
<td>Less than 1%</td>
<td>Insurance, preventive actions and questionnaires</td>
</tr>
<tr>
<td>Liability torts</td>
<td>Shareholder lawsuits</td>
<td>Less than 1%</td>
<td>Legal review and D&amp;O insurance</td>
</tr>
<tr>
<td>IT infrastructure</td>
<td>IT Center goes down</td>
<td>Less than 1%</td>
<td>Backup IT capabilities</td>
</tr>
<tr>
<td>Financial misrepresentation</td>
<td>P&amp;L misclassification</td>
<td>1-3%</td>
<td>SOX controls and quarterly questionnaires</td>
</tr>
<tr>
<td>Regulatory compliance</td>
<td>FCPA violation</td>
<td>1-5%</td>
<td>Training, quarterly questionnaires, and increased Internal Audit reviews</td>
</tr>
<tr>
<td>Funding availability</td>
<td>Covenant violation</td>
<td>9-19% for BBs</td>
<td>Typically, a minimal investment in people and training, with no questionnaires</td>
</tr>
</tbody>
</table>

Since many treasurers also manage these risks, the disconnect in managing default risk is particularly acute once the company’s true default risk is realized.
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Benchmarking Background

- DCS has analyzed and graded the effectiveness of the AFP Debt Compliance Survey on ten criteria, which we have divided into how companies structure and execute their debt compliance process:

  **Structuring:**
  1. Objectives (Policy)
  2. Responsibility (Compliance Team)
  3. Depth of Coverage (Use of SMEs)
  4. Accountability (Documentation)
  5. Oversight (Board/BoD Committee)

  **Executing:**
  6. Calendar
  7. Covenant Checklist
  8. Nonfinancial Covenant (NFC) Review
  9. Prospective NFC Review
  10. Prospective Ratio & Baskets Review

- For each criteria, we have assigned specific practices from the survey, weighting each practice by our judgment of its effectiveness.

- We sum the practice weights by criteria and convert to grades, with the overall grades being A (8%), B (18%), C (27%), D (33%) and No Pass (14%)
There’s Little Risked-Based Debt Compliance

- The chart shows that companies are not managing their debt compliance based on either their credit rating risk or on their debt size.
- Stated differently, the thoroughness of the debt compliance process is not based upon risk.
- The >$10 billion group are doing a better job:
  - These companies by necessity will have 1-2 FTEs dedicated to debt compliance.

<table>
<thead>
<tr>
<th>Debt Size</th>
<th>&lt;BB</th>
<th>BB</th>
<th>BBB</th>
<th>&gt;BB</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0-50 million</td>
<td>D+</td>
<td>D</td>
<td>D+</td>
<td>D</td>
</tr>
<tr>
<td>$50-100 million</td>
<td>D-</td>
<td>C+</td>
<td>D+</td>
<td></td>
</tr>
<tr>
<td>$100-250 million</td>
<td>D+</td>
<td>D+</td>
<td>C</td>
<td>D-</td>
</tr>
<tr>
<td>$250-500 million</td>
<td>C-</td>
<td>C-</td>
<td>D+</td>
<td>C</td>
</tr>
<tr>
<td>$500M-1 billion</td>
<td>C</td>
<td>C</td>
<td>D+</td>
<td>C-</td>
</tr>
<tr>
<td>$1-5 billion</td>
<td>C</td>
<td>C</td>
<td>C+</td>
<td>C+</td>
</tr>
<tr>
<td>$5-10 billion</td>
<td>D+</td>
<td>B-</td>
<td>C-</td>
<td>C-</td>
</tr>
<tr>
<td>&gt;$10 billion</td>
<td>B</td>
<td>B-</td>
<td>C+</td>
<td>C-</td>
</tr>
<tr>
<td>All</td>
<td>C</td>
<td>C-</td>
<td>C</td>
<td>C-</td>
</tr>
</tbody>
</table>
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The 10 Criteria Analysis

- For each criteria, we will present the results of five different subgroups to show the range of practices and their effectiveness:
  - The entire benchmark group
  - Companies that have assigned no one to be responsible for the debt compliance
  - Companies that do not document their compliance evaluations
  - Companies that do not use any kind of covenant checklist
  - Companies that document their SMEs’ compliance evaluations using questionnaires and have prospective non-financial covenants
    - Our analysis found that these “best three practices” companies have in the highest overall rating of any three practices

- We also show the overall rating of companies that are using each individual practice as well as the DCS weights used to calculate the grades by criteria and on an overall basis
Common Compliance Weaknesses

- We have included the three “no” practices to show that companies with common debt compliance weaknesses rarely do anything else right:

<table>
<thead>
<tr>
<th>Companies/% of 401 Total</th>
<th>No Assigned Responsibility</th>
<th>No Documentation</th>
<th>No Covenant Checklist</th>
<th>Best Three Practices</th>
<th>Percentile within Benchmark Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall DCS Grade</td>
<td>D-</td>
<td>D</td>
<td>D-</td>
<td>A-</td>
<td>401/100%</td>
</tr>
<tr>
<td>Percentile within Benchmark Group</td>
<td>22%</td>
<td>35%</td>
<td>25%</td>
<td>94%</td>
<td>53%</td>
</tr>
</tbody>
</table>

**Criteria**

1. Objectives/Written Policy
2. Responsibility/Assigned Compliance Team
3. Depth of Coverage/Use of SMEs
4. Accountability/Documentation
5. Board/BoD Committee Oversight
6. Calendar
7. Covenant Checklist
8. Non-Financial Covenant (NFC) Review
9. Prospective NFC Practices
10. Prospective Ratio & Basket Practices

- The slides that follow show the detail of each criteria’s individual covenant practices
1. Objectives (Policy)

- Any effective corporate process must have written objectives
- We recommend using these five objectives:
  1. Fully understand the debt agreements, converting the covenant requirements into tasks
  2. Integrate those tasks into the company’s operations by assigning them to the people whose responsibilities can impact the covenants
  3. Determine efficiently and accurately the company’s quarterly compliance with its debt covenants
  4. Manage existing and potential covenant issues to minimize the risk of future covenant violations
  5. Manage senior management and lenders about significant possible covenant issues to avoid surprises and mitigate the consequences

<table>
<thead>
<tr>
<th>Companies/% of 401 Total</th>
<th>No Assigned Responsibility</th>
<th>No Documentation</th>
<th>No Covenant Checklist</th>
<th>Best Three Practices</th>
<th>Benchmark Group</th>
<th>Grade Using This Practice</th>
<th>DCS Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>125/31%</td>
<td>224/56%</td>
<td>71/18%</td>
<td>31/8%</td>
<td>401/100%</td>
<td>401/100%</td>
<td></td>
</tr>
<tr>
<td>1. Objectives/Written Policy</td>
<td>C-</td>
<td>C</td>
<td>C</td>
<td>B+</td>
<td>C+</td>
<td>C+</td>
<td>100%</td>
</tr>
<tr>
<td>a. Policy</td>
<td>38%</td>
<td>42%</td>
<td>44%</td>
<td>61%</td>
<td>50%</td>
<td>C+</td>
<td>100%</td>
</tr>
<tr>
<td>b. Written procedures but no policy</td>
<td>16%</td>
<td>14%</td>
<td>17%</td>
<td>32%</td>
<td>18%</td>
<td>C</td>
<td>40%</td>
</tr>
<tr>
<td>c. No policy or procedures</td>
<td>46%</td>
<td>44%</td>
<td>39%</td>
<td>6%</td>
<td>32%</td>
<td>D</td>
<td></td>
</tr>
</tbody>
</table>
2. Responsibilities (Compliance Team)

- Any effective corporate process must have staff assigned responsibility for the process
- We call the people with direct responsibility for gathering, summarizing and evaluating the company’s quarterly debt compliance the Compliance Team (“CT”)
- Having CT members outside of Treasury are useful in receiving co-operation from SMEs in their departments and as well as their contacts with SMEs in other areas of the company

<table>
<thead>
<tr>
<th>Companies/% of 401 Total</th>
<th>No Assigned Responsibility</th>
<th>No Documentation</th>
<th>No Covenant Checklist</th>
<th>Best Three Practices</th>
<th>Benchmark Group</th>
<th>Grade Using This Practice</th>
<th>DCS Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 Responsibility/Assigned Compliance</td>
<td>No Pass</td>
<td>D+</td>
<td>D</td>
<td>A</td>
<td>C</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. HQ Treasury</td>
<td>0%</td>
<td>52%</td>
<td>39%</td>
<td>97%</td>
<td>65%</td>
<td>C+</td>
<td>40%</td>
</tr>
<tr>
<td>b. HQ Accounting</td>
<td>0%</td>
<td>34%</td>
<td>30%</td>
<td>71%</td>
<td>42%</td>
<td>C+</td>
<td>35%</td>
</tr>
<tr>
<td>c. HQ Legal</td>
<td>0%</td>
<td>14%</td>
<td>15%</td>
<td>74%</td>
<td>27%</td>
<td>B-</td>
<td>30%</td>
</tr>
<tr>
<td>d. Chief Compliance/Risk Officer/Other</td>
<td>0%</td>
<td>8%</td>
<td>7%</td>
<td>39%</td>
<td>14%</td>
<td>B-</td>
<td>20%</td>
</tr>
<tr>
<td>e. Internal Audit/SOX Staff</td>
<td>0%</td>
<td>8%</td>
<td>8%</td>
<td>35%</td>
<td>12%</td>
<td>B-</td>
<td>20%</td>
</tr>
<tr>
<td>f. Foreign Financial Staff</td>
<td>0%</td>
<td>4%</td>
<td>4%</td>
<td>13%</td>
<td>6%</td>
<td>B-</td>
<td>20%</td>
</tr>
<tr>
<td>g. No Assigned Responsibility</td>
<td>100%</td>
<td>43%</td>
<td>55%</td>
<td>0%</td>
<td>31%</td>
<td>D-</td>
<td></td>
</tr>
<tr>
<td>h. # of Compliance Team Categories</td>
<td>0.0</td>
<td>1.2</td>
<td>1.0</td>
<td>3.3</td>
<td>1.7</td>
<td>C-</td>
<td></td>
</tr>
</tbody>
</table>
3. Depth of Coverage (SMEs)

- Debt compliance, especially for speculative grade companies, cannot be effectively done by Treasury and Legal alone due to number, complexity and breadth of the covenants.

- By involving SMEs to attest to compliance about covenants in their areas of responsibility, you are also training them in the company’s debt obligations, minimizing the risk that otherwise good business decisions inadvertently breach.

<table>
<thead>
<tr>
<th>3. Depth of Coverage/Use of SMEs</th>
<th>No Assigned Responsibility</th>
<th>No Documentation</th>
<th>No Covenant Checklist</th>
<th>Best Three Practices</th>
<th>Benchmark Group</th>
<th>Grade Using This Practice</th>
<th>DCS Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies/% of 401 Total</td>
<td>125/31%</td>
<td>224/56%</td>
<td>71/18%</td>
<td>31/8%</td>
<td>401/100%</td>
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<td>D-</td>
<td>B-</td>
<td>20%</td>
</tr>
<tr>
<td>a. HQ Treasury</td>
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<td>16%</td>
<td>15%</td>
<td>74%</td>
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<td>B-</td>
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</tr>
<tr>
<td>b. Legal</td>
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<tr>
<td>c. Accounting</td>
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<tr>
<td>d. Tax</td>
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<td>e. Insurance</td>
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<td>B+</td>
<td>25%</td>
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<tr>
<td>f. Pensions/Benefit</td>
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<td>23%</td>
<td>5%</td>
<td>A-</td>
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<td>g. HR/Corp. Dev./Other</td>
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<tr>
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<td>3%</td>
<td>3%</td>
<td>16%</td>
<td>7%</td>
<td>B</td>
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<tr>
<td>i. Environmental/Safety</td>
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<td>0%</td>
<td>0%</td>
<td>13%</td>
<td>5%</td>
<td>B+</td>
<td>25%</td>
</tr>
<tr>
<td>j. Internal Audit</td>
<td>2%</td>
<td>1%</td>
<td>4%</td>
<td>19%</td>
<td>5%</td>
<td>B</td>
<td>25%</td>
</tr>
<tr>
<td>k. Senior HQ Management</td>
<td>1%</td>
<td>2%</td>
<td>1%</td>
<td>16%</td>
<td>5%</td>
<td>B</td>
<td>25%</td>
</tr>
<tr>
<td>l. Real Estate</td>
<td>2%</td>
<td>0%</td>
<td>0%</td>
<td>13%</td>
<td>5%</td>
<td>B</td>
<td>20%</td>
</tr>
<tr>
<td>m. Foreign Unit Treasury</td>
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<td>16%</td>
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<td>20%</td>
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<tr>
<td>n. No SMEs</td>
<td>87%</td>
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<td>0.6</td>
<td>0.6</td>
<td>4.2</td>
<td>1.5</td>
<td>C-</td>
<td></td>
</tr>
</tbody>
</table>

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4. Accountability (Documentation)

- Effective debt compliance requires accurate and complete evaluations by people knowledgeable about the covenants.
- The best way to encourage accountability is by documenting the attestations about covenant compliance, such as a questionnaire process.

<table>
<thead>
<tr>
<th>Companies/% of 401 Total</th>
<th>No Assigned Responsibility</th>
<th>No Documentation</th>
<th>No Covenant Checklist</th>
<th>Best Three Practices</th>
<th>Benchmark Group</th>
<th>Grade Using This Practice</th>
<th>DCS Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>4. Accountability/Documentation</td>
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<td>No Pass</td>
<td>No Pass</td>
<td>A+</td>
<td>D+</td>
<td>B-</td>
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<tr>
<td>a. Documents SMEs</td>
<td>14%</td>
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<td>11%</td>
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<td>B-</td>
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<tr>
<td>b. Documents CT</td>
<td>11%</td>
<td>0%</td>
<td>14%</td>
<td>100%</td>
<td>33%</td>
<td>B-</td>
<td>40%</td>
</tr>
<tr>
<td>c. Documents CT or SME Superiors</td>
<td>9%</td>
<td>0%</td>
<td>11%</td>
<td>81%</td>
<td>28%</td>
<td>B-</td>
<td>35%</td>
</tr>
<tr>
<td>d. Other Documenting</td>
<td>6%</td>
<td>0%</td>
<td>7%</td>
<td>0%</td>
<td>6%</td>
<td>C-</td>
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</tr>
<tr>
<td>e. No documentation</td>
<td>77%</td>
<td>100%</td>
<td>79%</td>
<td>0%</td>
<td>56%</td>
<td>D</td>
<td>20%</td>
</tr>
</tbody>
</table>
5. Oversight (Board/BoD Committee)

Since a default can shut a company down and crater its market cap, it is our view that the debt compliance should be regularly reviewed by the Board of Directors or by a BoD committee, especially for speculative grade companies:

<table>
<thead>
<tr>
<th>Companies/% of 401 Total</th>
<th>No Assigned Responsibility</th>
<th>No Document-</th>
<th>No Covenant Checklist</th>
<th>Best Three Practices</th>
<th>Benchmark Group</th>
<th>Grade Using This Practice</th>
<th>DCS Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>125/31%</td>
<td>224/56%</td>
<td>71/18%</td>
<td>31/8%</td>
<td>401/100%</td>
<td>401/100%</td>
<td></td>
</tr>
</tbody>
</table>

5. Oversight/Board or BoD Committee

- **a.** Regular quarterly reviews
  - D: 11%
  - D+: 16%
  - C+: 29%
  - C+: 17%
  - D+: C+
  - 100%

- **b.** Regular semi-annual reviews
  - 2%
  - 1%
  - 4%
  - 0%
  - 1%
  - C
  - 100%

- **c.** Regular annual reviews
  - 1%
  - 1%
  - 0%
  - 13%
  - 3%
  - B
  - 100%

- **d.** Regular reviews, but unspecified frequency
  - 6%
  - 8%
  - 11%
  - 10%
  - 7%
  - C-
  - 50%

- **e.** Not regular, but did review in last 3 years
  - 38%
  - 36%
  - 37%
  - 32%
  - 33%
  - C-
  - 40%

- **f.** No Known Board Review
  - 41%
  - 38%
  - 30%
  - 16%
  - 38%
  - D+
6. Calendar

- Any debt agreement has a myriad of documents that need to be regularly delivered: financial statements, special financial schedules, insurance certificates, ERISA filings, changes in material contracts, etc., etc.

- An annual calendar listing the filing and fixed payment requirements month by month is the only way to make sure that nothing is missed and is the most popular tool used by the Benchmark Group:

<table>
<thead>
<tr>
<th>Companies/% of 401</th>
<th>No Assigned Responsibility</th>
<th>No Documentation</th>
<th>No Covenant Checklist</th>
<th>Best Three Practices</th>
<th>Benchmark Group</th>
<th>Grade Using This Practice</th>
<th>DCS Weight</th>
</tr>
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<tbody>
<tr>
<td>6. Calendar</td>
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</tr>
<tr>
<td>a. Calendar</td>
<td>C</td>
<td>B-</td>
<td>C+</td>
<td>A+</td>
<td>B</td>
<td>C</td>
<td>100%</td>
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<tr>
<td></td>
<td>52%</td>
<td>61%</td>
<td>54%</td>
<td>97%</td>
<td>72%</td>
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<tr>
<td>b. No Calendar</td>
<td>48%</td>
<td>39%</td>
<td>46%</td>
<td>3%</td>
<td>28%</td>
<td>D-</td>
<td>0%</td>
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</table>

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7. Covenant Checklist

- Debt agreements are complex, legally dense documents that need to be interpreted into specific actions whose execution or failure to execute results in an event of default.

- Since any covenant breach, no matter how small, gives the lenders the option of extracting concessions or withdrawing from the credit, a comprehensive master list of the covenants of all debt is a requirement.

### 7. Covenant Checklist

<table>
<thead>
<tr>
<th>Companies/% of 401 Total</th>
<th>No Assigned Responsibility</th>
<th>No Documentation</th>
<th>No Covenant Checklist</th>
<th>Best Three Practices</th>
<th>Benchmark Group</th>
<th>Grade Using This Practice</th>
<th>DCS Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>125/31%</td>
<td>224/56%</td>
<td>71/18%</td>
<td>31/8%</td>
<td>401/100%</td>
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<tr>
<td>7. Covenant Checklist</td>
<td>C</td>
<td>C+</td>
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<td>d. Marked-up Agreements</td>
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<td>0%</td>
<td>4%</td>
<td>D</td>
<td>25%</td>
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<tr>
<td>e. Other Covenant List</td>
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<td>0%</td>
<td>4%</td>
<td>No Pass</td>
<td>10%</td>
</tr>
</tbody>
</table>

- See the Appendix section for advice on writing a covenant checklist.
8. Non-Financial Covenant Review

- This is where the Documentation, the Covenant Checklist and the SMEs come together, because the CT must interact with the SMEs about compliance with covenants outside the CT’s areas of responsibility
- The issue is how the CT confirms the covenants with the SMEs
- Best practice is sending a questionnaire to the SMEs, which also can document their responses

<table>
<thead>
<tr>
<th>Companies/% of 401 Total</th>
<th>No Assigned Responsibility</th>
<th>No Documentation</th>
<th>No Covenant Checklist</th>
<th>Best Three Practices</th>
<th>Benchmark Group</th>
<th>Grade Using This Practice</th>
<th>DCS Weight</th>
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<td>61%</td>
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<tr>
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<td>8%</td>
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<td>d. Emails to SMEs</td>
<td>26%</td>
<td>25%</td>
<td>21%</td>
<td>58%</td>
<td>32%</td>
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<td>1.2</td>
<td>3.3</td>
<td>1.6</td>
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</table>
9. Prospective NFC Practices

The best way to prevent covenant violations in future quarters is to do a thorough job in the current quarter, identifying existing and likely future covenant issues so that they can be monitored, managed and mitigated in succeeding quarters:

<table>
<thead>
<tr>
<th>Companies/% of 401 Total</th>
<th>No Assigned Responsibility</th>
<th>No Documentation</th>
<th>No Covenant Checklist</th>
<th>Best Three Practices</th>
<th>Benchmark Group</th>
<th>Grade Using This Practice</th>
<th>DCS Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>125/31%</td>
<td>224/56%</td>
<td>71/18%</td>
<td>31/8%</td>
<td>401/100%</td>
<td>401/100%</td>
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<td>9%</td>
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<td>18%</td>
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<tr>
<td>b. Process for Managing Existing NFC Issues</td>
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<td>9%</td>
<td>8%</td>
<td>100%</td>
<td>16%</td>
<td>B</td>
<td>60%</td>
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<td></td>
</tr>
<tr>
<td>c. Process for Anticipating Future NFC Issues</td>
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<td>13%</td>
<td>13%</td>
<td>71%</td>
<td>18%</td>
<td>B-</td>
<td>50%</td>
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<td></td>
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<td>d. Other Prospective Practices</td>
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<td>6%</td>
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<td>9%</td>
<td>C</td>
<td>20%</td>
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<tr>
<td>e. No Prospective NFC Practices</td>
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<td>70%</td>
<td>80%</td>
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<td>62%</td>
<td>D+</td>
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</tbody>
</table>
10. Prospective Ratio & Basket Practices

- The quarterly CFO certificate must include covenant ratio calculations and the quarter’s permitted baskets must be calculated as a matter of course, so there can be no credit for doing them.
- What’s critical is forecasting future ratios and permitted baskets:

<table>
<thead>
<tr>
<th>10. Prospective Ratio &amp; Basket Practices</th>
<th>No Assigned Responsibility</th>
<th>No Documentation</th>
<th>No Covenant Checklist</th>
<th>Best Three Practices</th>
<th>Benchmark Group</th>
<th>Grade Using This Practice</th>
<th>DCS Weight</th>
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<td>No Pass</td>
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<td>D-</td>
<td>B-</td>
<td>40%</td>
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<td>87%</td>
<td>30%</td>
<td>B-</td>
<td>10%</td>
</tr>
<tr>
<td>c. Forecasting Permitted Baskets</td>
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<td>20%</td>
<td>13%</td>
<td>74%</td>
<td>26%</td>
<td>B</td>
<td>50%</td>
</tr>
<tr>
<td>d. Permitted Baskets Approval Process</td>
<td>4%</td>
<td>12%</td>
<td>6%</td>
<td>68%</td>
<td>18%</td>
<td>B+</td>
<td>25%</td>
</tr>
<tr>
<td>e. No Prospective Ratio &amp; PB Practices</td>
<td>86%</td>
<td>74%</td>
<td>85%</td>
<td>6%</td>
<td>68%</td>
<td>D+</td>
<td></td>
</tr>
</tbody>
</table>

- However, this kind of prospective review may not be necessary if covenant and permitted basket limits are very high, with little chance of them being exceeded in the foreseeable future.
Agenda

- Executive summary
- Understanding default risk
- The AFP Debt Compliance Survey
- Building a strong debt compliance process
- Achieving five debt compliance objectives
- Benchmarking your company’s debt compliance
- Appendix
  - Estimating technical default risk
  - Writing covenant checklists and questionnaires
  - About Debt Compliance Services
## Achieving Five Debt Compliance Objectives

<table>
<thead>
<tr>
<th>Debt Compliance Objective</th>
<th>Best Practices</th>
</tr>
</thead>
</table>
| 1. Understand and interpret the debt agreements, converting the covenants into tasks     | • Comprehensive master covenant checklist for all debt agreements  
• Permitted basket analysis  
• Due date calendar of deliverables and fees  
• Financial model of covenant ratios with stress testing |
| 2. Integrate those tasks into the company’s operations                                     | • Debt Compliance Policy  
• Compliance Team, which generally includes staff from Treasury, Legal, Controllers, and possibly others to manage the company’s compliance  
• Assign Subject Matter Experts (SMEs) to the covenants in their areas of expertise and responsibility  
• Train Compliance Team members and SMEs in their Policy responsibilities |
## Achieving Five Debt Compliance Objectives – 2

<table>
<thead>
<tr>
<th>Debt Compliance Objective</th>
<th>Best Practices</th>
</tr>
</thead>
</table>
| 3. Determine efficiently and accurately the company’s quarterly compliance with its debt covenants | ▪ Review the comprehensive covenant checklist.  
▪ Determine financial covenant ratios.  
▪ Determine permitted baskets amounts.  
▪ SMEs complete questionnaires on their covenants with their responses reviewed by their managers.  
▪ Evaluation of the responses  
▪ Exception Report analysis of all existing and potential covenant issues, no matter how small.  
▪ Confirm that all deliverables and fees have been sent per calendar |
<table>
<thead>
<tr>
<th>Debt Compliance Objective</th>
<th>Best Practices</th>
</tr>
</thead>
</table>
| 4. Manage existing and potential covenant issues to minimize the risk of future covenant violations | ▪ Forecast and stress test financial covenant ratios
▪ Forecast permitted basket items against limits, and where appropriate, establish approval procedures for new permitted basket items
▪ Require by Policy that the SMEs report prospective covenant issues at all times, not just at quarter-end
▪ Compliance Team monitors and manages existing and potential issues identified in the Exception Report.
▪ T/CFO discusses significant possible future covenant issues with lenders |
Agenda

- Executive summary
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  - Estimating technical default risk
  - Writing covenant checklists and questionnaires
  - About Debt Compliance Services
This presentation has shown the large risks that companies, especially speculative grade companies, have with an inadequate debt compliance process and what can be done to improve it.

For those Treasurers interested in evaluating their debt compliance process further, at no cost and obligation, DCS will provide you with a customized benchmarking report with peers with the same credit rating and similar debt if you take the same survey at: https://www.research.net/s/debtcompliance
Agenda

- Executive summary
- Understanding default risk
- The AFP Debt Compliance Survey
- Building a strong debt compliance process
- Achieving five debt compliance objectives
- Benchmarking your company’s debt compliance

Appendix
- Estimating technical default risk
- Writing a covenant checklist and questionnaires
- About Debt Compliance Services
Estimating Technical Default Risk

<table>
<thead>
<tr>
<th>From Initial Rating To:</th>
<th>A-Rated Transition Rates*</th>
<th>DCS Weighting</th>
<th>Technical Default Risk</th>
<th>BBB-Rated Transition Rates*</th>
<th>DCS Weighting</th>
<th>Technical Default Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>AA or AAA</td>
<td>5.5%</td>
<td>0.6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A</td>
<td>54.0%</td>
<td>10.4%</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>BBB</td>
<td>15.3% 10% 1.5%</td>
<td>49.0%</td>
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<tr>
<td>BB</td>
<td>2.2% 50% 1.1%</td>
<td>7.8% 10% 0.8%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>0.8% 50% 0.4%</td>
<td>2.7% 50% 1.3%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CCC/C</td>
<td>0.2% 50% 0.1%</td>
<td>0.4% 75% 0.3%</td>
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<td></td>
<td></td>
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<tr>
<td>Non-Rated</td>
<td>21.4% 20% 4.3%</td>
<td>26.8% 25% 6.7%</td>
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<td></td>
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<tr>
<td>Hard Default</td>
<td>0.7% 60% 0.4%</td>
<td>2.3% 60% 1.4%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>100.0% 7.8% 100.0% 10.5%</td>
<td></td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>BB-Rated Transition Rates*</th>
<th>DCS Weighting</th>
<th>Technical Default Risk</th>
<th>B-Rated Transition Rates*</th>
<th>DCS Weighting</th>
<th>Technical Default Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>AA or AAA</td>
<td>0.1%</td>
<td>0.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A</td>
<td>1.2%</td>
<td>0.4%</td>
<td></td>
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</tr>
<tr>
<td>BBB</td>
<td>12.5%</td>
<td>1.8%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BB</td>
<td>28.9%</td>
<td>10.4%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>11.3% 20% 2.3%</td>
<td>23.7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CCC/C</td>
<td>1.4% 40% 0.6%</td>
<td>2.9% 70% 2.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Rated</td>
<td>35.6% 30% 10.7%</td>
<td>39.4% 50% 19.7%</td>
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<td></td>
</tr>
<tr>
<td>Hard Default</td>
<td>9.0% 60% 5.4%</td>
<td>21.4% 80% 17.1%</td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>100.0% 18.9% 100.0% 38.9%</td>
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</tbody>
</table>

*Per S&P's 2012 Global Corporate Default Study and Rating Transitions, Table 21

Our weightings are based on these considerations:

- In general, rating declines will be preceded by technical defaults, with two notch declines having a higher frequency of technical defaults than one notch declines.
- Rating declines are not linear: A drop from BB to B reflects a greater credit decline than a drop from A to BBB.
- Hard defaults (a missed payment, distressed debt exchange or a bankruptcy filing) most likely incurred technical defaults first.
- Companies generally become non-rated because the public debt has been bought out due to a large bank refinancing or an acquisition, with the former more likely as credit risk increases.
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Common Covenant Fallacies

**Common Fallacy**

- Covenants are found only in the affirmative and negative sections of the agreements
- 20/80: The “real” covenants are limited to financial performance, reporting, and prohibitions about additional debt, etc.
- The senior credit facility has all of the most restrictive covenants
- “Covenant-lite” agreements have no covenants

**Fact**

- Covenants usually number 80 for a typical senior credit facility and are found throughout the agreement
- The non-financial covenants are where most mistakes are made
- Other agreements often have covenants that are unique to that type of agreement or are more restrictive because the agreement was written earlier under different credit conditions
- Covenant-lite agreements may have 0-1 financial ratio covenants, but they will have permitted basket limits, non-financial covenants, and covenants that are triggered by poor operating results
## Many Non-Financial & Financial Covenants

<table>
<thead>
<tr>
<th>Performance Requirements</th>
<th>Notification Requirements</th>
<th>Prohibited Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Mandatory prepayments of debt from proceeds of asset sales, insurance receipts, new debt, etc.</td>
<td>• Asset sales</td>
<td>• Exceeding permitted basket limits for debt, guarantees, liens, L/Cs, etc.</td>
</tr>
<tr>
<td>• Mandatory interest rate hedging</td>
<td>• Environmental events and claims</td>
<td>• Related party transactions</td>
</tr>
<tr>
<td>• Required documentation of new subsidiaries</td>
<td>• ERISA events</td>
<td>• Derivative transactions</td>
</tr>
<tr>
<td>• Debt registration requirements</td>
<td>• Material Adverse Effect events</td>
<td>• Change of Control</td>
</tr>
<tr>
<td>• P&amp;I payments</td>
<td>• Union strikes</td>
<td>• Acquisitions and mergers</td>
</tr>
<tr>
<td>• Financial ratios</td>
<td>• Material litigation</td>
<td>• Dividends, stock buy-backs, and prepayment of other indebtedness</td>
</tr>
<tr>
<td></td>
<td>• Casualty losses</td>
<td>• Allowing insurance to lapse</td>
</tr>
<tr>
<td></td>
<td>• Insurance receipts</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Change in material contracts</td>
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</tbody>
</table>
A covenant checklist is an annotated index to the debt agreement but cannot be used as a substitute for the debt agreement.

- All interpretations about a covenant violation must be based upon a review of the agreement, not a review of the checklist.

A covenant checklist should be a concise, bulleted summary of the covenants, having these elements:

1. Reference to the covenant’s debt agreement (sub) section
2. Brief summary of the covenant, as free of legalese as possible
3. A brief categorization of the covenant, so like covenants across agreements can be easily aggregated and compared to determine the controlling covenants
4. Timing, when the covenant must be observed, e.g., at all times or quarterly or annually
5. Reference to the applicable Event of Default, which describes the consequences of breaking the covenant.
Who Should Develop the Checklist

- We do not recommend lawyers, especially external counsel, because while they are very good at writing covenants, they have little experience in complying with covenants – nor do they understand how a corporation works
  - We’ve found that often their checklists are verbose and incomplete
- Best internal course of action is for checklist to be written by Treasury with a rigorous review by in-house Legal
  - Treasury does have to understand the covenants and figure out how to comply with them, so Treasury should do the first pass
  - Rigorous Legal review helps ensure that all covenants are identified and accurately described
- For multiple agreements, develop a comprehensive checklist for each agreement and then use that to determine a master list of the unique governing master covenants using the categories mentioned on the preceding slide
Writing Questionnaires

- Requires a thorough covenant checklist
- Requires an interpretation of what action the covenant describes so that the questions have this yes or no format:
  - Did event A happen?
  - Or if event A happened, did you do action B?
- Repeating the text of the covenant is poor practice, abdicating responsibility for interpretation to those least qualified to do it
- Respondents should answer the questions:
  - To the best of his or her knowledge, seeking information from subordinates and colleagues as necessary
  - Report any issue, no matter how small – it is not the respondent’s job to make materiality judgments, that’s the CT/T/CLO/CFO’s job
  - Provide explanations if a question is answered negatively, i.e., if there’s a covenant issue
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About Debt Compliance Services

- Now in its 5th year, DCS provides cloud debt compliance services and is owned by Greenwich Treasury Advisors and Corporate Finance Solutions
- Jeff Wallace founded Greenwich Treasury Advisors in 1992
  - Recognized expert in risk management and international treasury
  - VP-International Treasury at Amex, AT at both Seagram and D&B
  - (303) 442-4433 and jeff.wallace@debtcompliance.com
- Jim Simpson founded Corporate Finance Solutions in 2002
  - In his 35-year career, he has managed or advised on over $4B in convertibles, high yield bonds, revolvers, term loans, and ABLs
  - CFO of Moore Medical (public, $300M sales) and CS Brooks (private, $200M sales), and Treasurer of Sandoz USA (Novartis)
  - (203) 329-7491 and jим.simpson@debtcompliance.com
The DCS Covenant Manager℠ Solution – 1

- The DCS Covenant Manager℠ is a cloud service in which all clients access the same system. It
  - Is a rigorous, automated turnkey best practice compliance process in which DCS does the heavy lifting, minimizing scarce staff time
  - Is user-friendly and thoroughly debugged after four years of development and client feedback
  - Consists of three integrated, but separately available applications

- DCS Debt Manager℠
  - Debt agreements become easy-to-navigate webpages linking defined terms and section references
  - Embedded, linked covenant checklist
  - Multi-agreement contextual searching
  - Comments capability shares hard-earned covenant understandings and reduces training time
The DCS Covenant Manager℠ Solution – 2

- DCS Debt Manager℠ (cont’d)
  - Amendments conformed easily and quickly
  - Linked annual calendar and permitted baskets analysis

- DCS Compliance Manager℠
  - Web questionnaires on each covenant allocated to key finance and business stakeholders at HQ and at the units
  - Substantial reporting capabilities allows easy validation and evaluation of responses:
    - The Questions with Multiple Answers
    - Two Quarter Comparison report on how covenant issues differ between quarters
    - The Resolution Report lists all covenant issues and how they will be resolved

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The DCS Covenant Manager℠ Solution – 3

- **DCS Calendar Manager℠**
  - All deliverables and payments scheduled out to each debt’s maturity
  - Email reminders, Outlook tasks and calendar items
  - Substantial reporting capabilities:
    - Upcoming tasks with estimated and hard due dates
    - Completion date vs. hard due date
    - Filtering options include by agreement, task owner, supervisor, and task type

- **Pricing**
  - Firm quotes are provided with a business case presentation after we review the debt agreements
  - Implementation fees typically are amortized as debt issuance or software development costs and are usually a small fraction of a 1 bp of the debt
Our clients include large and middle market public and private companies:

- Actavis, an private multi-billion € Icelandic pharmaceutical company
- Church & Dwight, a $2.6 billion consumer products company
- Smart Balance, a $300 million food manufacturer
- RailAmerica, a $500 million owner of leading short line and regional railroads providing rail service to customers across North America
- Grupo Cementos de Chihuahua, a multi-billion $ Mexican cement company with extensive US operations
- Waters Corp., a $1.6 billion manufacturer with leading positions in complementary analytical technologies
- A privately held, multi-billion $ security firm
- A well-known luxury goods company
- A major international audit firm
“Actavis is one of the world’s leading generic pharmaceutical companies, operating in 50 countries across the globe. We chose Debt Compliance Services to assist us in designing a comprehensive debt compliance process to meet the reporting requirements of our complex external financing arrangements. We are impressed with the sophistication of their debt compliance services and the profession-alism and responsiveness of their ongoing support. DCS’ unique global web questionnaire system has enabled our key business stakeholders to better understand our on-going obligations and resulted in an efficient way to manage the substantial information flow generated by our large and complex business. We now have a clear overview of what is going on in the Group without having to spend too much time and resources in the attempt. We highly recommend DCS’ professionalism and services.”

—Gudjon Gustafsson, Group Treasurer, Actavis Group

“Debt Compliance Services’ tools reduce my risk, save me and my team time and effort, and have made our compliance reporting easy. Gone are the days when we would have to pull out our old, worn loan documents to review all of the various covenants and restrictions before making critical strategic business decisions. With DCS, reviewing our agreements is literally done with a few clicks of the mouse.”

—Christine Sacco, Chief Financial Officer & Treasurer, Smart Balance, Inc.

“Grupo Cementos de Chihuahua is a Mexican-based cement and ready-mix concrete company with extensive operations in the U.S. The 2008 peso devaluation and the construction industry downturn led us to refinance our credit facilities with a tightly-coupled syndicated loan and note purchase agreement. We chose Debt Compliance Services because of their ability to integrate the compliance of these two agreements. As one of DCS’s first customers, we are pleased with service they have provided and how their service capabilities have expanded over the last two years at no cost to us. We have also found that the hyperlinked credit agreements allow us to quickly and accurately respond to questions that arise internally. We highly recommend their services.”

—Luis Carlos Arias Laso, Director, Corporate Treasury, Grupo Cementos de Chihuahua
1. “Pure Speculation: Treasurers of Non-Investment Grade Companies Must Reduce Covenant Risk”, *AFP Exchange*, June 2013

2. In collaboration with the AFP, the *AFP Debt Compliance Survey*, January 2013


5. “Safeguarding Your Liquidity”, CFO.com, September 1, 2012

6. “…Debt Compliance Services ...[is an example of]... Treasury 3.0.” *Treasury and Risk Magazine*, September 2010

Contact Information

For more information, please contact:

<table>
<thead>
<tr>
<th>Name</th>
<th>Phone Number</th>
<th>Email Address</th>
</tr>
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<tr>
<td>Jeff Wallace</td>
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<td><a href="mailto:jeff.wallace@debtcompliance.com">jeff.wallace@debtcompliance.com</a></td>
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