

COURSE OUTLINE:

# High Yield Bond Covenants: A Practical Approach

1 day  
8 CPE Credits

## Overview

This 1 day seminar will review and analyse the key covenants used in high yield bond documentation. Whether representing investor or issuer interests, the delegates will become familiar with the purpose and structure of covenants through the use of tools and real life examples. There will be a focus on learning to recognise the strengths and pitfalls of covenants and how creative drafting of covenants and definitions can enhance or weaken a covenant's intent.

## Learning Objectives

Upon completion of this seminar delegates will be able to:

- » Understand the purpose/intention of each of the key high yield bond covenants
- » Analyse and summarise key covenants with an increased ability to focus on material issues
- » Recognise, describe and assess: Restricted Payments and Debt Incurrence covenants by analyzing their the component parts
- » Determine the level of subordination risk inherent in a structure
- » Analyse covenants individually and as a covenant package to assess the overall quality of investor protection

## Who Should Attend

High Yield fund managers, bond analysts, leveraged finance lenders, investment banking advisors and other finance professionals with an interest in bond documentation

## Program Level

**Program Level:** Intermediate/Advanced

**Prerequisites:** 3-5 years experience in a credit related finance function or academic equivalent

**Delivery Method:** Live

## Accreditation

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Our training solutions leverage over a century of experience in risk assessment and the comprehensive tools, data, and analysis of Moody's Analytics to deliver timely, in-depth, and comprehensive knowledge. In delivery, our people make the difference – they combine deep experiences as financial practitioners, intellectual passion for the content, and superior academic credentials with a commitment to delivering outstanding quality.

# High Yield Bond Covenants: A Practical Approach – Agenda

## 1-DAY PROGRAMME

### Session 1: Introduction and Framework

- » Background to use of covenants in high yield bonds
- » Overview of leveraged buy-outs
- » Debt structure review and bond vs loan covenants
- » Creditor/shareholder conflict
- » HY Bond covenants & effect on ratings
- » Covenants and the mitigation of PD & LGD
- » A risk-driven framework: Cash leakage, Leverage, Risky investments and Subordination.

### Session 2: Cash Leakage: RP Covenant Demystified

- » Restricted group: definitions, various structures and relationship with unrestricted entities
- » Ringfencing and unrestricted subsidiary credit quality; substantive consolidation risk
- » Restricted payments c ("RP") covenant overview
- » RP structure; component parts and their function
- » Types of RP Income baskets and key carve-outs
- » Reclassification of RPs made under carve-outs, and other pitfalls
- » Transactions with affiliates and relationship with RP covenant.
- » **Exercise:** Calculating RP income basket, specific carve-outs and assessing cash leakage to unrestricted subsidiaries

### Session 3: Leverage

- » Debt Incurrence ("DI") Covenant overview
- » Structure and components of DI covenant
- » Standard fixed charge coverage test
- » EBITDA definitions and manipulation
- » Gross Debt vs net debt; market driven standards vs quality of covenant protection
- » Reclassification of debt from carve-outs to debt incurrence test
- » **Exercise:** calculating available leveraging headroom

### Session 4: Structural & Strategic Change

- » Risky Investments: shareholder motivation and scope of restrictions
- » Change of Control ("COC"): strengths and weaknesses in covenant language and definitions. COC in private equity
- » Portability clauses
- » Change of Business: increasing business risk without breaching the covenant
- » Asset Disposals: covenant structure and definitions; timing issues; dealing with service industry issuers
- » **Exercise:** COC, Asset disposals, Risky Investments and Change of business covenants: How they work together to protect investors

### Session 5: Subordination

- » Overview of subordination and seniority (effective, contractual and structural subordination)
- » Seniority by Right of payment vs claim on assets
- » Intercreditor agreements: purpose, usage and enforcement
- » Absolute priority: claims and rights in insolvency
- » Anti-Layering covenant and distressed exchanges
- » Liens subordination/Negative pledge
- » **Exercise:** Identifying structural subordination risk; Minimising litigation Risk

### Session 6: Moody's Covenant Quality Scoring

- » Assessment process and ratings grid
- » Scoring rationale for 6 risk areas: cash leakage, risky investments, leverage, liens, subordination, change of control
- » High yield Lite assessments; criteria
- » Global, US and European covenant trends
- » **Case Study:** Rating a covenant package

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