
Risk Metrics Database: Events of Default and Enforcement

As a first part of DebtXplained's roll out of its new and innovative database, which will generate new, clear, easy to read and use DXP reviews as well as allow subscribers to compare and analyse over 500 different provisions within a high yield issue, we have taken the opportunity to illustrate the potential of the database in order to review and comment on the recent trends in the enforcement of senior secured notes; this will form a second part of the new Super-Section, *Underperformance Risk*, and will comprise:

Events of Default and Enforcement:

1. Priority/ Ranking of Creditors
2. Priority Hedging Caps
3. Enforcement Rights
4. Standstill
5. Payment Stop
6. Security Release Mechanism
7. Acceleration
8. Cross-Default/Cross-Acceleration
9. Events of Default (Financial)
10. Events of Default (Security and Guarantees)

For instance, in looking at enforcement provisions in senior secured deals over 2010 and 2011 with over 20 different data points, DebtXplained subscribers would be able to analyse tensions in the fundamental underlying shareholder/noteholder conflict inherent in the capital structure of any high yield bond financing.

DXP has previously reported on the trend of senior secured notes; the database illustrates that thirty-four of seventy-one "senior secured" notes contain a super senior creditor class¹. Such super senior ranking is now well understood in the market. However, the DebtXplained database takes such comparisons much further, for example allowing investors to analyse which of any senior secured issues also contain super senior hedging and whether such super senior hedging is capped or uncapped; allowing for further future subordination.

This information in itself, whilst useful, is enhanced when allied with the ability to compare it with other data points, for example, to compare Noteholders' rights on instructions of enforcement. This interaction with data will allow investors to understand not only the control they may have over shared security, but also whether as a creditor class their interests are naturally aligned with those of the bank lenders in a distressed scenario. Of the thirty-four super senior deals, only fifteen² allow for the Noteholders' instructions to prevail in the case of inconsistent instructions.

The database also allows Noteholders to fully understand and compare the extent of their ability to control the security to which they are beneficiary, either independently, equally with bank lenders or alternatively how little/no control they may have. Subscribers will be able to note that whilst some

¹ Ardagh, Befesa, Carbon Black, Care UK, CET 21, Consolidated Minerals, Edcon, House of Fraser, IFCO, Inaer, Infinis, Interxion, Invitel, Kabel BW, Kerling, Kuka, Labco, Loyalty Partner, Man U, Matalan, New World Resources, Nordea, Odeon, Oxea, Ontex, Phones 4 U, Priory, Refresco, R&R Ice Cream, Siemens, Spotless, Styrolution, Swissport.

² Befesa, Carbon Black, Care UK, House of Fraser, Inaer, Loyalty Partner, Matalan, Odeon, Oxea, Phones 4 U, Siemens, Spotless, Styrolution, Swissport.

issues, such as Labco's senior secured notes, contain the full suite of protections on the release of security (sale for cash/independent 3rd party valuation/disposal at market value/public auction/release of all outstanding debt claims), others such as Sappi's senior secured notes, contain no specifications as to the release of the shared security. Subscribers will be able to search for those deals on the basis of the quality of the protective provisions as to the disposal of secured assets in a distressed scenario. The comparison combination of waterfall of proceeds, rights to instruct and conditions of release of security allows investors to compare and analyse issues at a level not previously possible without investing significant hours of research.

This year has also seen an insurgence of hybrid deals coming to market³. The database allows full comparison of the differing voting rights of noteholders as indirect security holders. For example, whilst Telenet noteholders instruct the issuer as a senior lender who has full pro rata voting rights vis-a-vis the bank lenders in any enforcement decisions, in Pages Jaunes⁴ the issuer's voting participation is capped at 25% irrespective of the principal amount of the notes proportionate to the other facilities⁵.

Unlike any other product available in the market, the database also allows subscribers to research across issues that contain a right to purchase other classes of senior debt following an enforcement.

The ability to compare and contrast cross default provisions will also allow subscribers to recognise to what extent they have a "seat at the table" in workout negotiations at group level as different issues contain different levels of cross-default protection. The database highlights a spectrum of financial cross default provisions, from any default in other debt of the issuer or any subsidiary through to debt owed only by the issuer and guarantors to the least protective cross default provision, only issuer debt. As the cross default clause narrows, the restricted group has less incentive to include noteholders should other group entities be in financial difficulty.

The newly formatted reports and the new debtCompared database from DebtXplained will be introduced in combination with our subscriber consultation together with further explanatory commentary such as this. DXP believes that the evolution of its product responds to subscriber feedback and will supply an unparalleled user experience in analysing and comparing EHYB deals.

³ Pages Jaunes, Kion, UPCB, Telenet.

⁴ Like Ziggo's Oct 2010 issue

⁵ Until Facility C commitments account for more than 66 2/3% of total facility commitments.