

ELFA investor survey on covenant transparency shows need for greater disclosure on capacity calculations, link to governance pillar of investors' ESG analysis

Public consultation on proposed metrics to include in best practice guidance receives strong engagement by leveraged finance market participants

London, UK, 10 August 2020 – The European Leveraged Finance Association (ELFA), a trade association comprised of European leveraged finance investors from over 30 institutional fixed income managers, including investment advisors, insurance companies and pension funds, today announces results from its investor survey on covenant transparency. The survey was conducted in conjunction with a public consultation on proposed best practice guidance for disclosure on covenant calculations.

The survey drew 140 investors, providing a broad market view on how covenant capacity impacts investors' decision to invest, or remain invested, in a particular instrument.

The survey results demonstrate a clear need for improved disclosure on covenant capacity. Over 90% of respondents are either unable to accurately calculate covenant capacity, or cannot determine whether their calculations are accurate because management's calculations are not disclosed.

However, discussions with management frequently do not occur – approximately 40% of the respondents reported that management never, or almost never, answers investor questions on covenant capacity, with nearly 50% responding that management only sometimes answers these questions.

The survey results support a link between transparency on covenant calculations and investors' ESG analysis, with over 70% of respondents reporting that they consider transparency about covenant calculations to be an aspect of their overall ESG analysis of a company, and over 75% of them responding that disclosure on covenant capacity would strengthen a company's governance score under their firm's ESG analysis.

To date a range of market participants, including trade associations, law firms, banks, and leveraged finance investors have engaged with ELFA through its Disclosure & Transparency Committee's ongoing public consultation. This input, along with responses from investors in the survey, will form the basis for our best practice recommendations for covenant transparency.

The proposed metrics and topics for disclosure in the Best Practice Guide on Covenant Transparency include disclosure on "EBITDA" as defined under the covenants, the amount of outstanding debt captured by the "Indebtedness" definition, Restricted Payments capacity (including back-dated build-up basket capacity), and flexibility for a borrower to dis-apply IFRS 16 to calculations under its covenants.

This initiative is further described in an ELFA Insights report, **Increased Transparency on Covenant Capacity is Essential to Good Governance by Leveraged Finance Borrowers**, which is available for download on ELFA's website at www.elfainvestors.com/elfa-insights.

The deadline for submitting comments in the public consultation is Friday, 14 August at 6pm. Submissions can be sent to Sabrina Fox, Executive Adviser to ELFA, at sfox@elfainvestors.com. Following the public consultation, ELFA intends to publish an ELFA Insights report describing the survey results and outlining anticipated next steps in further refining the draft guidance.

Sabrina Fox, Executive Adviser, comments: “The results of ELFA’s survey of investors on covenant transparency show that the drastic increase in covenant complexity has made it difficult, and in some cases impossible, for investors to quantify the level of risk they are incurring. We are encouraged by the strong engagement in the public consultation received so far, as we view this as key to the success of the initiative. Transparency in this area is essential to strong governance, and the best practice guidance will seek to support companies in making clear disclosure to investors on covenant calculations.”

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About ELFA: The European Leveraged Finance Association (ELFA) is a professional trade association comprised of European leveraged finance investors more than 30 institutional fixed income managers, including investment advisors, insurance companies, and pension funds. ELFA seeks to support the growth and resilience of the leveraged finance market while acting as the voice of its investor community by promoting transparency and facilitating engagement among European leveraged finance market participants. For more information please visit the ELFA website: www.elfainvestors.com.

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