Introduction to the LMA: Structure, Objectives and Core Activities

Presentation to the Association of Regional Banks of Russia

Nicholas Voisey – LMA
27 September 2011
Moscow
LMA Background

- Established in 1996 by 7 leading banks
- Located in London
- Currently 9 staff (including Executive)
- 20 board members (excluding LSTA and APLMA)
- Operate via a series of committees and working parties
LMA Structure
LMA Structure (cont’d)

• LMA Board
  – Full members only
  – Bank and non-bank
  – LSTA and APLMA representation

• LMA Executive
  – Managing Director – Clare Dawson
  – Directors – Nicholas Voisey and Mike Johnstone

• LMA Membership
  – Full members (Banks and Non-Bank Investors)
  – Associate members (primarily Law Firms)
  – Courtesy members (e.g. Bank of England, BBA)
46 nationalities
476 organisations
59 new members this year
MEMBERSHIP BREAKDOWN

476 Members

- 290 Law Firms
- 126 Others
- 42 Non Banks
- 18 Banks
Principal benefits to be gained by LMA members

- Access to documentation library
- Opportunity to influence outcome of LMA projects
- Updates on market developments
- Addressing market issues as a group
- Access to specific training events/general education programme
- Reduced costs to individual members by virtue of a collective approach to issues
LMA Objectives

• Four Overarching Objectives:
  
  • Foster market liquidity
  • Promote the syndicated loan market in its broadest sense
  • Act as an agent for constructive change
  • Educate and inform all market participants
LMA Core Activities

• Provision of recommended documentation for both primary and secondary syndicated loan markets

• Establishing Market Practice and Guidelines

• Monitoring regulation, legislation and other factors affecting the market

• Lobbying on key issues

• Education/training throughout EMEA

• Publishing updates, newsletters and other literature on important market issues
LMA Committees and Working Parties

- Committees are made up of active market practitioners and lawyers who are specialists in the relevant field. Committees include:
  - Documentation
  - Secondary Documentation
  - Agency
  - Loan Operations
  - Tax

- In addition, the Board and Committees establish Working Parties to address specific issues and projects. Some of these include:

  - Primary Syndication Issues
  - Basel III
  - Rating agency
  - Real Estate
  - Institutional Investor
  - Trade Finance
  - Widening Investor Base
  - Restructuring/Insolvency
  - Leveraged and Intercreditor
LMA Documentation

• Objectives

– LMA documentation provides a common basis for documentation between lender and borrower
– Increases efficiency and avoids negotiation of boilerplate terms
– Commercial aspects left open for negotiation
– Embodies a standardised deal structure (with options) – therefore needs to be adapted for deal specifics
– Possible alternatives may be offered where market has not reached consensus
– Consistency of drafting and terminology across whole suite of documents
– Reflects legal, regulatory and market practice changes from time to time
LMA Documentation

• **Standard form documentation suites**
  
  – Investment Grade Primary Documents (6)
  – Leveraged Finance Facility Agreement (1)
  – Secondary Trading Documents
  – Intercreditor Agreement
  – French and German law Primary Documents
  – Ancillary documents – term sheet, mandate letters, release and reliance letters, co-ordinating committee letters, confidentiality undertakings, non-public information papers etc
  – The LMA will be researching the possibility of extending its documentation beyond the existing general finance concept to more specific debt sectors – currently real estate and commodity finance

• **Establishing Market Practice and Guidelines**
  
  – Guidelines on "Transparency and the use of information"
  – Checklist of pre/post trade issues
  – Glossary of terms for Syndicated Loans
LMA Documentation – Creating a standard document

• Formation of Working Party
  – Invitation to active market participants (banks; non-bank investors and including lawyers)
    – Member of LMA Executive to co-ordinate process
• First draft produced by appointed law firm
• First draft reviewed by Working Party
• Ongoing meetings and drafts produced until document finalised
• Potential review/contribution from other relevant parties such as:
  – ACT (e.g. Investment Grade Document)
  – Mezzanine community (e.g. Leveraged Document and Intercreditor)
• Document launched to the market
• Ongoing review process carried out by Working Party
• Document updated as required
## LMA Facility Agreements

### Investment Grade Facility Agreements:
- 6 facility agreements (term/revolving/multi-currency/single currency), slot-in options, term sheet, mandate letters, syndication agreement, user’s guide
- “hard” and “soft” provisions

### Leveraged Facility Agreements:
- 1 facility agreement, term sheet and user’s guide
  Also assumes:
  – Senior and mezzanine acquisition structure
  – Ordinary shares and loan note/ preference share equity structure
- “hard” and “soft” provisions
Provisions in a Facility Agreement

• Hard Provisions:
  – Those provisions which are not dependent on circumstances of a particular deal and are not expected to be amended e.g. mechanics of making a loan, paying interest, notice provisions, withholding taxes and gross ups, relationship between agents and lenders

• Soft Provisions:
  – Clauses which set a starting point for negotiation. There is a recognition that amendments to the recommended wording are likely on a case by case basis e.g. financial covenants, undertakings, representations, events of default
LMA Intercreditor Agreement

- LMA Intercreditor Agreement designed for use in conjunction with the Leveraged Facilities Agreement
- Drafting follows same principles as other LMA documents – hard and soft provisions, commercial aspects left open for negotiation
- Document addresses the complex legal issues raised by intercreditor agreements, allowing users of the document to focus on commercial aspects of each actual transaction
- Particular focus on the treatment of Hedge Counterparties
## LMA Documentation Timeline

<table>
<thead>
<tr>
<th>DATE</th>
<th>DOCUMENT LAUNCHED</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEPTEMBER 1997</td>
<td>SECONDARY TRADING DOCUMENTS (PAR/NEAR PAR) INTRODUCED</td>
</tr>
<tr>
<td>MARCH 1999</td>
<td>DISTRESSED DEBT TRADING DOCUMENTS LAUNCHED</td>
</tr>
<tr>
<td>NOVEMBER 1999</td>
<td>INVESTMENT GRADE PRIMARY SYNDICATED LOAN DOCUMENT LAUNCHED</td>
</tr>
<tr>
<td>JULY 2002</td>
<td>FRENCH LAW/ENGLISH LANGUAGE PRIMARY DOCUMENT LAUNCHED</td>
</tr>
<tr>
<td>JANUARY 2004 (REVISED JUNE 2009)</td>
<td>LEVERAGED LOAN PRIMARY DOCUMENT LAUNCHED</td>
</tr>
<tr>
<td>OCTOBER 2005</td>
<td>REVISED DISTRESSED DEBT TRADING DOCUMENTS LAUNCHED</td>
</tr>
<tr>
<td>OCTOBER 2006</td>
<td>FINANCIAL COVENANT DEFINITIONS PUBLISHED</td>
</tr>
<tr>
<td>SEPTEMBER 2007</td>
<td>GERMAN LAW PRIMARY DOCUMENT LAUNCHED</td>
</tr>
<tr>
<td>SEPTEMBER 2008</td>
<td>CO-ORDINATING COMMITTEE LETTERS LAUNCHED</td>
</tr>
<tr>
<td>MARCH 2009</td>
<td>INTERCREDITOR AGREEMENT LAUNCHED</td>
</tr>
<tr>
<td>JANUARY 2010</td>
<td>COMBINED PAR/DISTRESSED SECONDARY TRADING DOCUMENTS LAUNCHED</td>
</tr>
</tbody>
</table>
Secondary Loan Market Volumes in Europe

![European Secondary Loan Volumes 2002 to Q1 2011](image)

Source: Dealogic
<table>
<thead>
<tr>
<th>ISSUE</th>
<th>INITIATIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATTRACTING NEW INVESTORS</td>
<td>• INSTITUTIONAL INVESTOR W/P&lt;br&gt;• WIDENING INVESTOR BASE W/P - MARKIT&lt;br&gt;LEVERAGED INDEX&lt;br&gt;• PRIMARY DOCUMENTATION ISSUES AFFECTING SECONDARY LIQUIDITY</td>
</tr>
<tr>
<td>RATING AGENCIES METHODOLOGY AND PROCESSES</td>
<td>• RATING AGENCY W/P - MOODY’S AND S&amp;P W/Ps – CREDIT ESTIMATES AND STRUCTURES</td>
</tr>
<tr>
<td>AGENCY PRACTICES</td>
<td>• AGENCY AND SECURITY AGENCY COMMITTEE – AGENT ROLE</td>
</tr>
<tr>
<td>SETTLEMENT AND OPERATIONS</td>
<td>• WORKING WITH VENDORS, LENDERS, AGENTS AND SERVICE PROVIDERS</td>
</tr>
<tr>
<td>PRIMARY SYNDICATION PRACTICES</td>
<td>• PRIMARY SYNDICATION W/P – DELAYED ALLOCATION/SETTLEMENT</td>
</tr>
<tr>
<td>ISSUE</td>
<td>INITIATIVE</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| INSOLVENCY AND RESTRUCTURING              | • RESTRUCTURING W/P  
  - CONSULTATIONS  
  - PAN-EUROPEAN BEST PRACTICE REGIME     |
| CHANGING ACCOUNTING STANDARDS             | • REVIEWING ACCOUNTING PRINCIPLES AND PRACTICES                              |
| BASEL III AND REGULATION                  | • BASEL III (LCR; NSFR; CAPITAL AND LEVERAGE RATIO)                         
  • US LEGISLATION – DODD-FRANK AND FATCA  
  • CRD – 122a RISK RETENTION               |
| DOCUMENTATION                             | • PRIMARY – REAL ESTATE AND COMMODITY FINANCE                                
  • PRIMARY – INTERCREDITOR AND LEVERAGED REVIEW (NEW CAPITAL STRUCTURES)   
  • SECONDARY – COMBINED PAR/DISTRESSED REVISIONS MARCH 2011                
  • ONGOING REVIEW OF ALL DOCUMENTS                                             |
LMA Education and Training

• The number of events has increased dramatically over recent years
• 3,000 delegates attended LMA events in 2010
• Events range from 1 hour seminars to a 5-day certificate course and include:
  
  – LMA Certificate (5 day) and Lawyer Course (2 day)
  – Documentation Training Courses (1 day) – Investment Grade, Leveraged, Secondary and Intercreditor
  – Annual LMA London Conference
Lobbying Activities - Recent Submissions to Regulators

- Article 122a (Exposures to transferred credit risk) of Directive 2006/48/EC (the "CRD") and Collateralised Loan Obligations ("CLOs")
- Response to the EBA (CEBS) Consultation Paper on Guidelines to Article 122a of the Capital Requirements Directive
- Dodd-Frank Risk Retention Rules
- Comments to IRS and others in relation to the Foreign Account Tax Compliance Act (FATCA)
- Response to the Commodity Futures Trading Commission and Securities and Exchange Commission on the definition of "swaps" under "Dodd-Frank"
- Response to European Commission Consultation in relation to the Review of the Markets in Financial Instruments Directive (MiFID)
- Response to the EU consultation re cross border interest payments
- Response to the EU consultation re cross border interest payments - Issue 4 – extending the Directive to payments between unrelated undertakings
LMA Publishing

- Monthly updates
- Newsletters every six months
- Activity Updates
- Seminar and Conferences
- Books on the syndicated loan market
ANY QUESTIONS?
LMA Contact Details

Loan Market Association
10 Upper Bank Street
London
E14 5JJ

Telephone: (+44) (0)207 006 5364

Email: nicholas.voisey@lma.eu.com

Website: www.lma.eu.com