Bond indenture covenants on balance sheet

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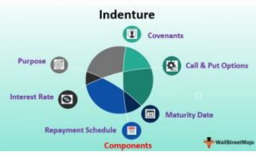
Table 2

Covenants

Number	Description
1	Accounting-based restrictions
2	Dividend restrictions
3	Reduction of capital
4	Liquidation, dissolution or bankruptcy
5	Change in core business
6	Change in company's structure
7	Transfer of or change in issuer's control
8	Sale, disposal or transfer of assets
9	Default
10	Problems with legal obligations and environmental permits

Note. Source: elaborated by the authors.



What is bond covenant. Bond covenants examples. Bond indenture vs official statement.

Access through your institutionVolume 7, Issue 2, June 1979, Pages 117-161 79)90011-4Get rights and contentRoss WattsClifford W. Smith et al.Ernest NagelWilliam A. JohnsonHarry H. HennMargaret H. Douglas-HamiltonArmen AlchianArmen Alchian et al.American Bar FoundationGeorge J. BenstonFischer BlackFischer Black et al.Fischer Black et al.Fischer Black et al.Zvi Bodie et al.Michael BradleySteven CheungRonald CoaseAvery G. CohanWilliam ColemanCharles DarwinHarold DemsetzArthur DewingPeter Dodd et al.Eugene F. FamaEugene F. FamaEugene F. Fama et al.James H. FogelsonGeorge FosterDan Galai et al.I find empirical evidence that financially distressed firms increase investment risk. I exploit a natural experiment where the treated firms must refinance long-term debt during the 2007–2008 credit crisis. When focusing on firms where the incentive to risk-shift is theoretically greater, such as financially vulnerable firms and those with better governance, I find the increase in investment risk is most prevalent among firms that are the most financially vulnerable and when executives benefit from increased risk. Contrary to previous empirical papers that did not find causal evidence of risk-shifting, these results suggest that the risk-shifting does occur when firms are financially distressed.Using samples of corporate bonds issued by Chinese A-share firms from 2007 to 2019, we examine the impact of having a local underwriter with foreign shareholders (UFS) affects the number of bond covenants. Our findings suggest that an UFS, on average, adds more covenants to its underwritten bonds to protect the interests of bondholders than local underwriters without foreign shareholders (UNFS). Our conclusion remains robust to alternative metrics of bond covenants and foreign shareholders, and after accounting for endogeneity. Additional analyses suggest that the effect of UFS on bond covenants is more salient when: 1) the issuer is opaque, has a duality of board chair and CEO, or is a non-state owned firm, 2) the issuer is located in a poor legal environment, in a low marketization area, or a region with poor economic development, 3) the foreign shareholder of the local underwriter has experience in its home market, is from a country with a better legal environment, or has ample experience in the Chinese underwriting business, or 4) after a major issue default in 2014. Furthermore, we find underwriter profit seeking and the benefits of repetitive financing motivate firms to hire UFS.We examine the impact of blockholder board representation on a borrower's bank loan contract terms and find it is associated with lower spreads and fewer negative covenants. When examining the potential channels behind the relationship, we find that blockholder-directors who take dedicated monitoring roles, as opposed to the short-term or confrontational positions often associated with activist shareholders, drive the overall relationship. The findings, which are robust to alternative model specifications and explanations, suggest that blockholder-directors can serve as substitute monitors to debtholders when their incentives are aligned. The results also highlight the heterogeneity among blockholders who actively influence the management process.We contribute to the literature on “market timing” by exploring periods of simultaneous equity issues and debt retirements (a leverage decreasing recapitalization, LDR). Contrary to traditional equity issues, LDRs are predicted by measures of creditor control whereas capital investment has no such predictive power. Nevertheless, LDRs occur after stock price run-ups and in periods of high valuation which subsequently decrease. The valuation dynamics are robust and also obtain for subsamples of LDR firms violating financial covenants. A comparison to debt retirements financed by illiquid asset sales and an analysis of discretionary cost items further corroborates the interpretation that LDR firms successfully “time the market” to finance the debt retirement.We investigate how loan covenants associated with potential target firms affect takeover deals. We propose two possible channels. Under a discipline channel, the target firm becomes an attractive candidate for takeovers and merger deals are facilitated. Under a constraint channel, covenants hinder merger activity. We find support for the latter channel. Takeover likelihood is lower, deal failures are more common, the likelihood of price renegotiation is higher, and acquisition premium is lower when the target is bound by covenants. Covenant tightness exacerbates this effect.We use supervisory loan-level data to document that small firms (SMEs) obtain shorter maturity credit lines than large firms, post more collateral, have higher utilization rates, and pay higher spreads. We rationalize these facts as the equilibrium outcome of a trade-off between lender commitment and discretion. Using the COVID recession, we test the prediction that SMEs are subject to greater lender discretion. Consistent with this hypothesis, SMEs did not draw down whereas large firms did, even in response to similar demand shocks. PPP recipients reduced non-PPP loan balances, indicating the program bolstered their liquidity and alleviated the shortfall.View all citing articles on ScopusMergers and acquisitions (M&A), private equity and leveraged buyouts, securitization and project finance are characterized by the presence of contractual clauses (covenants). These covenants trigger the technical default of the borrower even in the absence of insolvency. Therefore, borrowers may default on loans even when they have sufficient available cash to repay outstanding debt. This condition is not captured by the net present value (NPV) distribution obtained through a standard Monte Carlo simulation. In this paper, we present a methodology for including the consequences of covenant breach in a Monte Carlo simulation, extending traditional risk analysis in investment planning. We introduce a conceptual framework for modeling technical and material breaches from the standpoint of both lenders and shareholders. We apply this framework to a real case study concerning the project financing of a 64-million euro biomass power plant. The simulation is carried out on the actual model developed by the financial advisor of the project and made available to the authors. Results show that both technical and material breaches have a statistically significant impact on the net present value distribution, and this impact is more relevant when leverage and cost of debt increase.Studies have analyzed the impact of firm and issue characteristics but not liquidity and solvency components of financial distress on the use of bond covenants. Using a comprehensive database of corporate bonds from 2001 to 2012, we find that firm liquidity, measured by standardized Lambda, has a negative statistical and economic impact on the inclusion of all categories and sub-categories of restrictive bond covenants. Developed from financial statement information by Emery and Lyons (1991), Lambda is designed as a coverage ratio that, under certain distribution assumptions, maps into the probability of a firm being unable to pay its short-term bills. The strongest solvency proxy is the 10-year credit default swap (CDS) spread which is significant across the categories and sub-categories for investment and payment covenants, weakly significant for the subordinated debt sub-category of the subsequent financing covenant, but strongly significant for the control poison put sub-category of event covenants. This evidence supports a model that uses SLambda as a proxy for liquidity risk and the 10-year CDS spread as a proxy for solvency risk. The liquidity/covenant relationship is dampened when firms have access to commercial paper funding or bank loans. However, during the recent financial crisis liquidity event this liquidity/covenant relationship was enhanced especially for firms which were dependent on commercial paper during this time when the commercial paper market was deteriorating.This paper introduces a measure that captures the premium in bond prices that is due to the value of creditor control. We estimate the premium as the difference in the bond price and an equivalent synthetic bond without control rights that is constructed using credit default swap (CDS) contracts. We find empirically that this premium increases as firm credit quality decreases and around important credit events such as defaults, bankruptcies, and covenant violations. The increase is greatest for bonds most pivotal to changes in control. Changes in bond and CDS liquidity do not appear to drive increases in the premium.This article examines the relation between a borrowing firm's ownership structure and its choice of debt source using a novel data set on corporate ownership, control, and debt structures for 9,831 firms in 20 countries from 2001 to 2010. We find that the divergence between the control rights and cash-flow rights of a borrowing firm's largest ultimate owner has a significant negative impact on the firm's reliance on bank debt financing. In addition, we show that the control-ownership divergence affects other aspects of debt structure including debt maturity and security. Our results indicate that firms controlled by large shareholders with excess control rights may choose public debt financing over bank debt as a way of avoiding scrutiny and insulating themselves from bank monitoring.I study how shareholder litigation affects the cost of bank loans via its impact on the distribution of bankruptcy estate and the conflict of interests between shareholders and creditors. Using a natural experiment based on a ruling by the Ninth Circuit Court of Appeals, I find that increasing the difficulty of class action suits decreases loan spreads. The effect is stronger for firms with higher institutional ownership, which is consistent with the argument that class actions suits help shareholders extract wealth from creditors when the firm is in bankruptcy. Further analysis shows that the effect is weaker for firms with stronger creditor protection in bankruptcy.How do the distance constraints faced by lenders in acquiring borrower information affect the design of bank loan contracts? Theoretical studies posit that greater information asymmetry leads to the allocation of stronger ex ante decision rights to the lender (the uninformed party). Consistent with this hypothesis, we find that, upon inception, contracts tend to be more restrictive when firms seek loans from remote lenders. This finding is robust to potential endogeneity bias and simultaneity of various loan terms. Overall, we establish a strong informational link between distance and loan contract design.View full text

It is a standard clause of the bond contracts and loan agreements. read more Equity financing doesn’t impose restrictive covenants such as whether the company can take more debt or not, how much dividends it can pay out, or whether it can invest in riskier projects. However, a loan or debt financing does impose such restrictions. 07.11.2019 · Negative Covenants in Bond Issues. In a bond issue, the features of the bond and the responsibilities of the issuer are contained in a document called the trust indenture. The document details the negative covenants that the bond issuer must adhere to once the bond has been issued to investors. Covenants. High-yield bond issues are generally unsecured obligations of the issuing entity, and covenants are looser than on bank loans, providing the issuer more operating flexibility and enabling the company to avoid the need for compliance certification on a quarterly basis. The indenture includes the description of covenants. 10.08.2022 · The indenture defines “substantially all of its assets” as a portion of the non-current assets reflected in MPLX’s consolidated balance sheet as of the end of the most recent quarterly period that represents at least 66 2/3% of the total reported value of such assets. Document Properties. Type of Publication: Guideline Effective Date: January 1, 2019 No: A Subsection 515(1) of the Insurance Companies Act (ICA) requires Federally Regulated Property and Casualty Insurance Companies (property and casualty companies) to maintain adequate capital. Subsection 608(1) of the ICA requires foreign property and casualty companies ... a corporations 10 years bond are currently yielding a return of 7.75 percent. the expected inflation premium is 3.0 percent annually and the real interest rate is expected to be 3.00 percent annually over the next 10 years. the liquidity risk premium on the corporation's bond is 0.50 percent. the maturity risk premium is 0.25 percent on two year securities and increase by 0.10 percent for ... Section 318 — Effect of prescribed indenture provisions. Section 319 — Rules, regulations and orders. Section 320 — Hearings by Commission. Section 321 — Special powers of the Commission. Section 322 — Judicial review. Section 323 — Liability for misleading statements. Section 324 — Unlawful representations. Section 325 — Penalties 12.08.2022 · You should read the Indenture and applicable board resolution and officers’ certificate or supplemental indenture (including the form of debt security) relating to the applicable series of debt securities for the provisions which may be important to you. The Indenture is subject to and governed by the Trust Indenture Act of 1939, as amended. 06.05.2022 · Positive vs Negative Covenants. Debt covenants are defined as positive covenants or negative covenants. Positive debt covenants are covenants that state what the borrower must do. For example: Achieve a certain threshold in certain financial ratios; Ensure facilities and factories are in good working condition; Perform regular maintenance of ... Dictionary of Accounting Terms.pdf

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