



April 10, 2015

Dear Members:

As many of you are aware, the industry, the LSTA board, committees and staff have focused considerable effort and attention on the settlement issue. This effort resulted in the release last month of the LSTA Operational Best Practices for Primary and Secondary Trade Settlement and a recommendation to change delayed compensation practices as outlined below:

The LSTA board proposes the following revision to the practice of paying delayed compensation: in all circumstances where the Buyer of a loan is not ready to settle a secondary par loan trade on T+7, that Buyer will forfeit any and all rights it has to receive delayed compensation.

This revision should (1) create urgency from the Buyer to close trades, (2) reduce the Buyer's incentive to use the Seller's balance sheet and (3) increase the Dealer's incentive to use its own balance sheet to settle the Seller's trades when the Dealer is the Buyer. This proposal, supported by an overwhelming majority of the LSTA Board, is currently being fully vetted legally, operationally and technologic ally. We look forward to the robust engagement of our membership.

In sum, the board-endorsed proposal for secondary trades is as follows:

1. The Buyer must represent at the time of the trade that it reasonably expects to have the funds available to settle the trade from T+7 through and including the Settlement Date. This representation will be included in the Trade Confirmation, initially as an Other Term of Trade and ultimately in the Standard Terms and Conditions.
2. In order for delayed compensation to be passed from Seller to Buyer, Buyer must have sub-allocated the trade, if necessary, executed the required trade documentation and be financially able to settle the trade by no later than T+7 and remain financially able to settle the trade, without interruption,(aka "persist") until the actual Settlement Date.
3. Upon acquiring and offering inventory for delivery to a ready Buyer, Seller must retain and continue to offer ("persist") the respective inventory that is a match to its sale to Buyer until settlement and not divert such inventory to a different Buyer.



We recognize that changes to the electronic settlement platforms will be necessary in order to implement this proposal and that such modifications will take some time. However, in furtherance of the first point above, the LSTA proposes a revision to Section 1 of the Par Confirm to stress the importance that the party remitting the Purchase Price be ready, willing and able to close a trade when a loan asset is tendered. A black-line reflecting the proposed change and a clean draft are attached. Moreover, we recommend in the meantime that market participants consider adding the proposed language as an Other Term of Trade in the Par Confirm. A sample rider is provided below:

“Buyer represents and warrants that Buyer reasonably expects to have funds immediately available in an amount at least equal to the Purchase Price to effect settlement of the Transaction on the Commencement Date and each day thereafter through and including the Settlement Date and Seller represents and warrants that, if the purchase price calculations produce a negative number, Seller reasonably expects to have funds immediately available in an amount at least equal to the Purchase Price to effect settlement of the Transaction on the Commencement Date and each day thereafter through and including the Settlement Date.”

In summary:

- Once the date is chosen, the Buyer is expected to continue to persist in settling the trade.
- Delayed Compensation passes to the Buyer (provided Buyer has chosen a settlement date of T+7 or earlier) even though a trade may be delayed due to waiting for (1) KYC to be completed, (2) Borrower or Issuing Bank consents to be given or deemed given or (3) Agent freezes to be lifted.
- The trade documentation (e.g. confirms and assignment agreements) is not required to actually be executed by the Buyer at the time the proposed settlement date is chosen by the Buyer but does need to be executed by T+7 or such earlier proposed settlement date.
- If the Seller and Agent are ready to settle on or after the Buyer’s proposed settlement date and the Buyer isn’t able to settle, then the Buyer will forfeit all delayed compensation.

The LSTA believes that these recommendations provide incentives for significant improvement in the functioning of the loan market and will look, in the future to roll-out further refinements as well as recommendations for reducing the settlement of primary syndications. We all look forward to the support of the entire membership as we implement the proposal in due course as a significant step to reducing settlement delays.

Best Regards

A handwritten signature in black ink, appearing to read "R. Bram Smith". The signature is fluid and cursive, with a prominent initial "R" and a long, sweeping underline.

R. Bram Smith
Executive Director