

## **MEMORANDUM**

TO: File  
FROM: Division of Trading and Markets  
RE: Meeting with representatives of the Loan Syndications and Trading Association  
DATE: March 13, 2012

---

On January 12, 2012, Robert Cook, Catherine McGuire, Tom Eady, Matt Daigler, Josephine Tao, Christian Sabella, Amar Kuchinad, Elizabeth Sandoe, Ira Brandiss, Joan Collopy, Theresa Hajost, Lisa Skrzycki, and John Guidroz of the Securities and Exchange Commission participated in a meeting with representatives of the Loan Syndications and Trading Association (“LSTA”). The LSTA representatives were Elliot Ganz and Tess Felfe of the LSTA, Jen Grady of Richards Kibbe & Orbe LLP, and Yoon-Young Lee of WilmerHale.

The participants discussed the Commission’s proposed Prohibition Against Fraud, Manipulation, and Deception in Connection with Security-Based Swaps (File no. S7-32-10). Attached are slides presented by LSTA during the meeting.

---

# U.S. Syndicated Loan Market

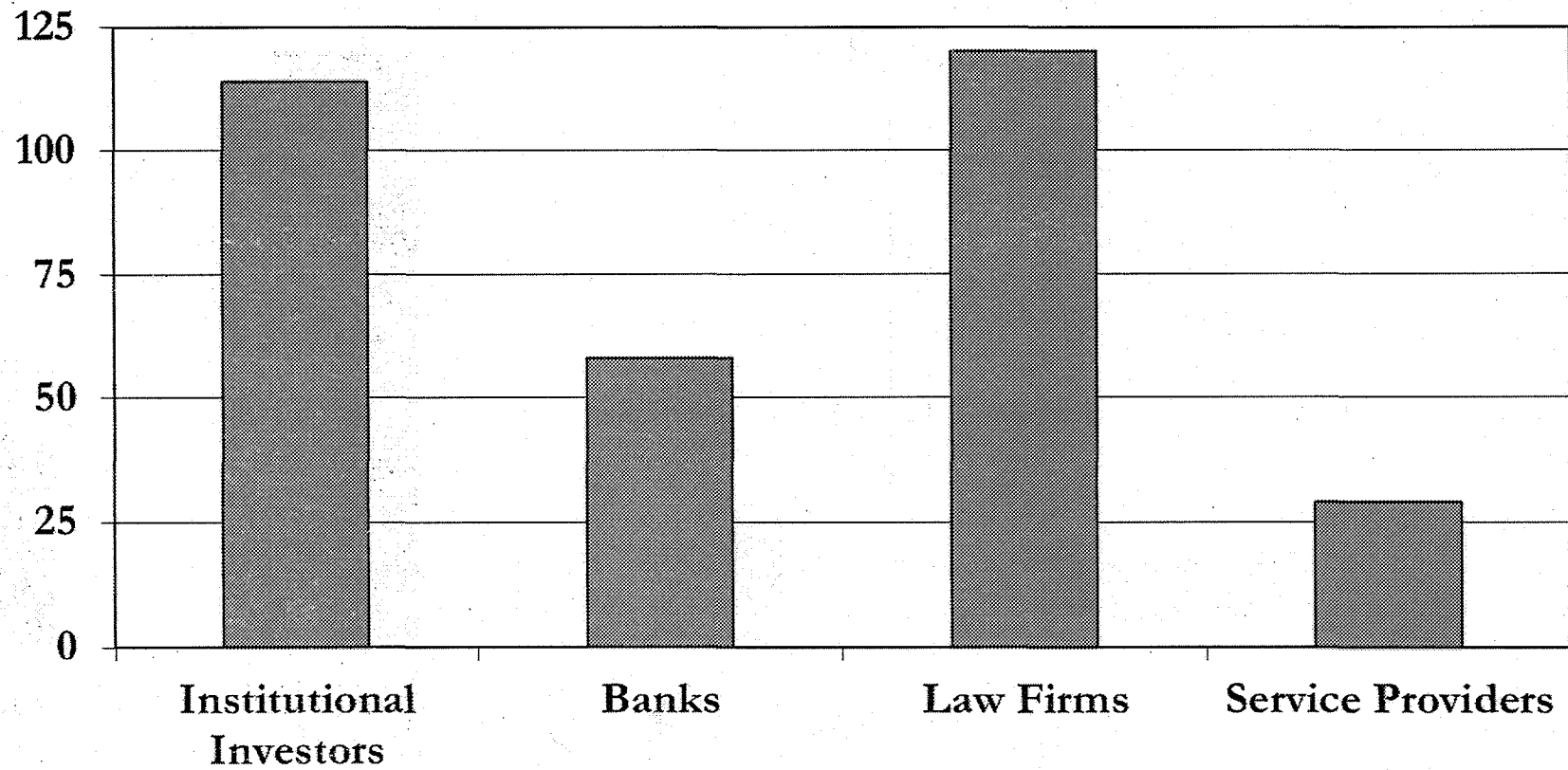
---

Elliot Ganz – General Counsel, LSTA

Tess Felfe – Assistant General Counsel, LSTA

***Our Mission:** The Loan Syndications and Trading Association promotes a fair, orderly, efficient and growing corporate loan market and provides leadership in advancing and balancing the interests of all market participants.*

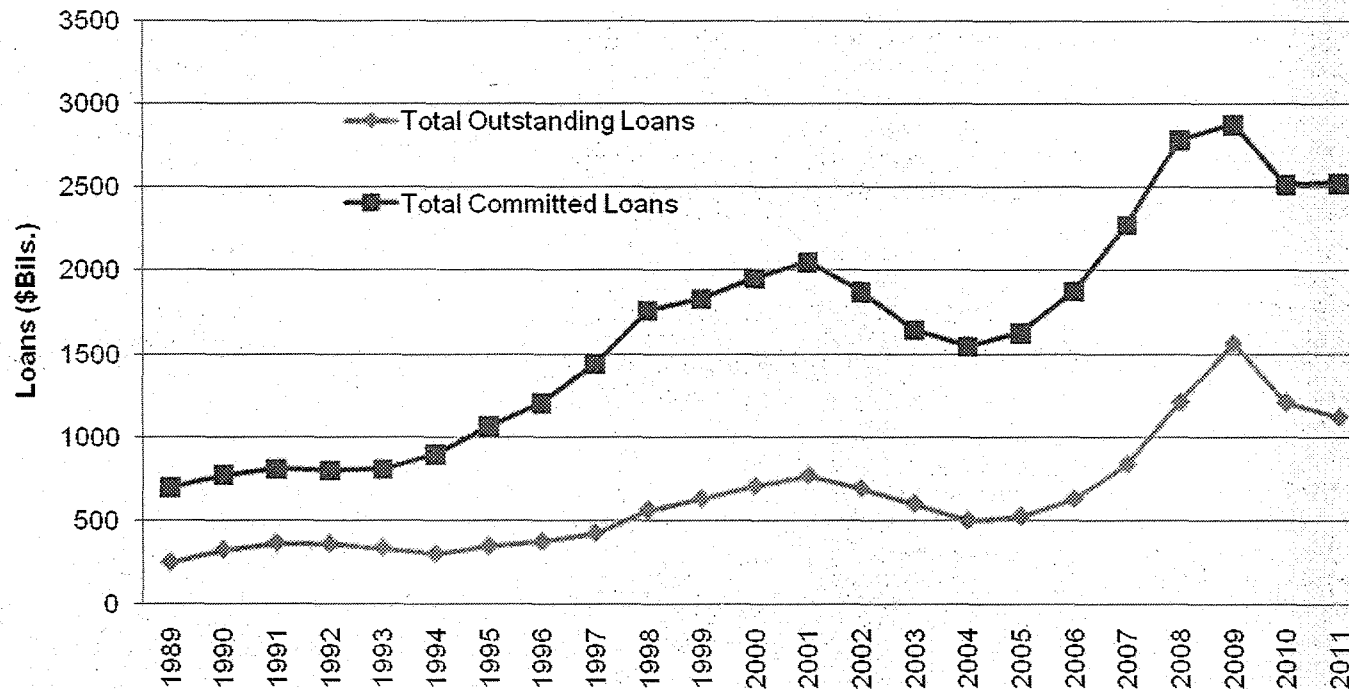
# LSTA Member Distribution



# LSTA Member Firms include...

SELLSIDE		BUYSIDE			
Bank of America	Bank of NY Mellon	Alcentra	HighBridge	BBT Fund	MFS Investment Mgmt
Bank of Ireland	Bank of Scotland	Alliance Partners	Highland Capital	Black Diamond	New Mountain Capital
Barclays Capital	Bank of Oklahoma	Allied Irish Bank	ING Financial Services	Canyon Capital	NY Life
BMO Nesbitt Burns	Capital One, N.A.	Allstate Investments	ING Investment	Capital Group	North Sea Partners
BNP Paribas Group	CoBank	Anchorage Advisors	INVESCO	CapitalSource	Ore Hill Partners
Cantor Fitzgerald	Commerzbank	Angelo Gordon	Kingsland Capital	Carlson Capital,	ORIX USA Corporation
Citadel Securities	CIC	Apollo Capital	King Street Capital	Caterpillar Fin Services	Patriarch Partners
Citigroup	Dexia Credit Local	Ares Mgmt L.P.	KKR Financial LLC	Centerbridge Partners	Paulson and Co.
Credit Agricole	DZ Bank	Babson Capital	Loomis, Sayles	Churchill Financial	PIMCO
Credit Suisse	Esprito Santo	Beach Point Capital	McDonnell Investment	CIT Group	Pinebridge Investments
Deutsche Bank	Fifth Third Bank	Black Rock	Monarch Alternative	CRT Capital	PPM America
FBR Capital Markets	Key Bank	Blackstone	Neuberger Berman	Davidson Kempner	Princeton Advisory
Fieldstone Capital	M&T Bank	Blue Mountain Capital	Oak Hill Advisors Inc.	DDJ Capital Mgmt	Seaport Group
Gleacher & Co.	Natixis	The Carlyle Group	Octagon Credit	Denali Capital	Seix Advisors
Goldman Sachs	Regions Bank	CIFC	Onex Credit Partners	Deutsche Asset Mgmt	Solus
Jefferies	Sumitomo Mitsui	Columbia Mgmt	Oppenheimer Funds	DiMaio Ahmad Capital	Standard Bank Limited
JPMorgan Chase	SunTrust	Credit Suisse Asset Mgt	Prudential Insurance	Doral Bank	State Street
Knight Libertas	Westdeutsche LB	Crescent Capital Group	Regiment Capital Advisors	EBF & Associates	Stone Harbor
Macquarie Bank	Wells Fargo	Delaware Investments	Sankaty	Eton Park	Susquehanna Intl Group
Morgan Stanley	BoTM-MUFJ	Eaton Vance Portfolio	Shenkman Capital	EDC	T. Rowe Price
Oppenheimer & Co.	CIBC World Markets	Elliott Mgmt	Silver Point Capital	First Trust Advisors	Thrivent Financial
Santander	GE Capital	Feingold O'Keefe Capital	Stone Tower	Guardian Life Ins	Watershed Asset Mgmt
Scotia Capital	HSBC	Fidelity Investments	Sumitomo Trust & Banking	Guggenheim Partners	Wellington Mgmt
Société Générale	Mizuho Financial	Fortress Investment Group	Symphony Asset Mgmt	Hillmark Capital Mgmt	Wells Fargo Foothill
TD Securities	PNC Capital Markets	Franklin Templeton	Third Point LLC	Icahn Associates	Z Capital Partner
UBS Securities LLC	RBC Capital Markets	Fraser Sullivan	West Gate Horizons	IKB Capital	
US Bank	Intesa SanPaolo	GoldenTree Asset Mgmt	Apidos Capital	Imperial Capital	
ANZ Banking Group		Golub Capital	Artio Global Mgt	Liberty Mutual	
BBVA		Grantham, Mayo	ATB Financial	Lord, Abbett & Co.	
Bank Hapoalim		Halcyon Asset Mgmt	AXA Investment	Magnetar Capital	

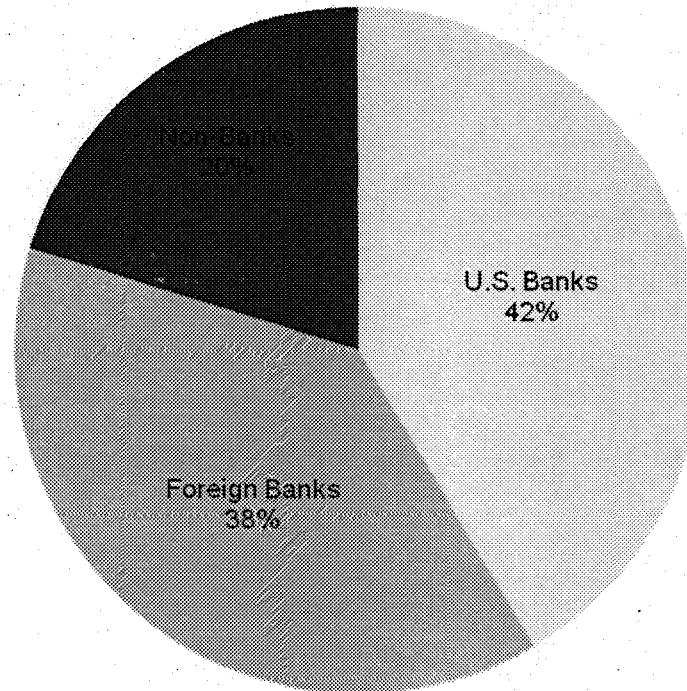
# U.S. syndicated loan and loan commitments outstanding



- Syndicated loans are large loans (generally over \$20 million) to companies and are shared among several lenders
- There are two major kinds of syndicated loans
  - Revolving credits – similar to credit cards, they can be drawn, repaid and drawn again
  - Term loans – similar to mortgages, they are drawn once and then repaid over time
- There are more than \$2.5 trillion of loan and loan commitments outstanding, which includes more than \$1 trillion of drawn loans

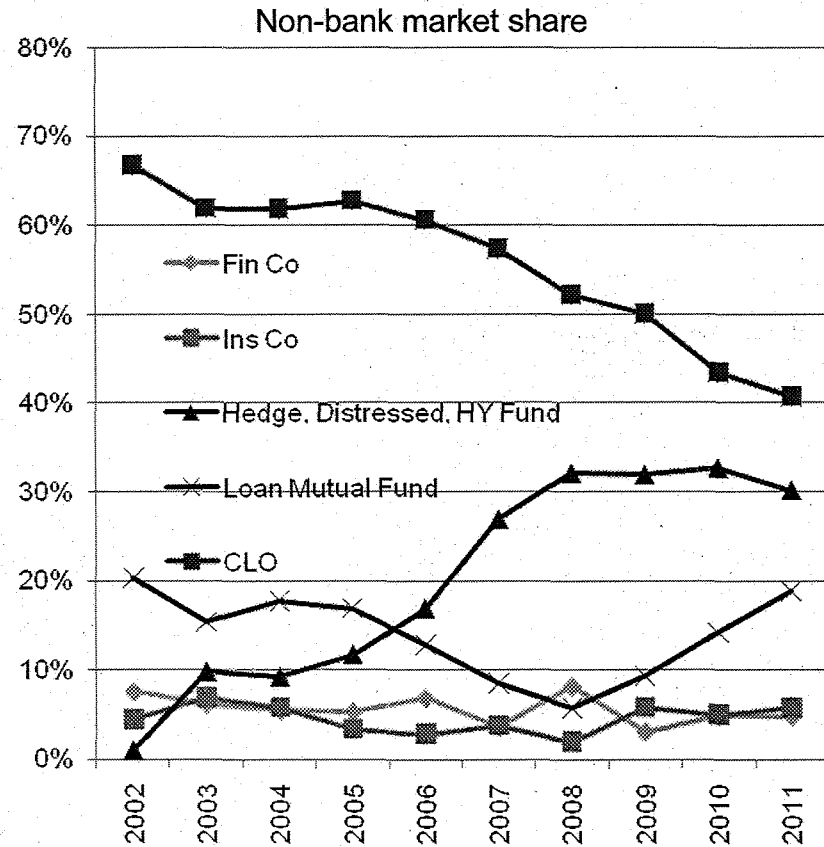
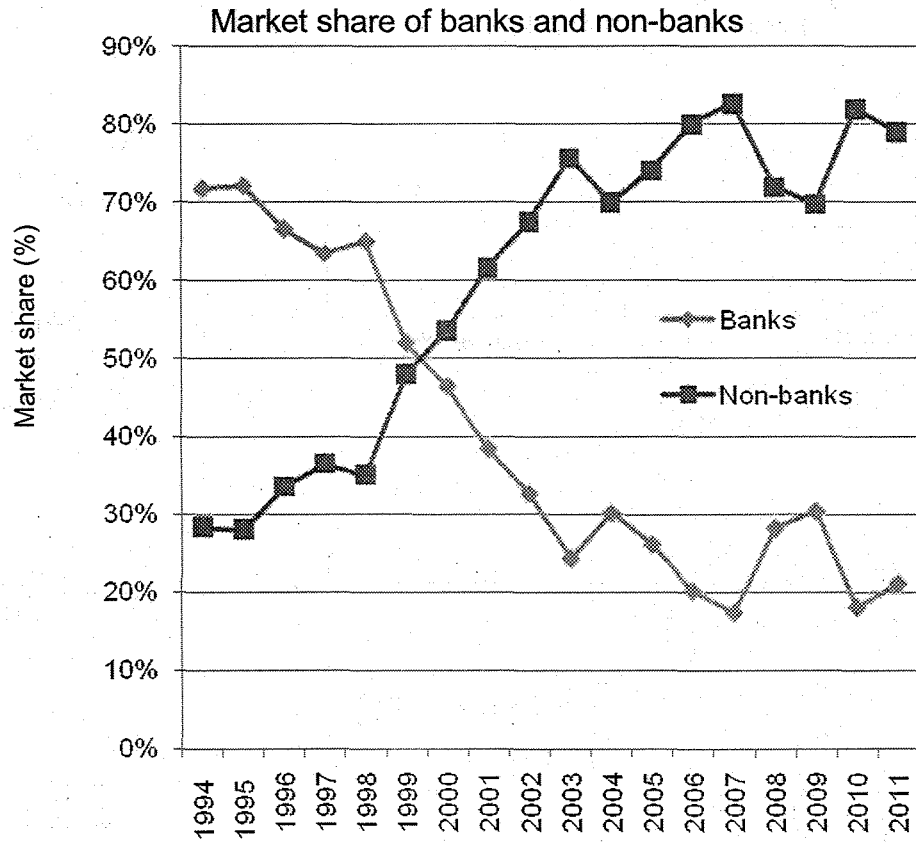
# Who is lending?

## Share of total syndicated loan and loan commitments



- U.S. corporate borrowers rely on a number of different lenders
- For the investment grade market, borrowers rely mainly on U.S. and foreign banks
- For the non-investment grade market, borrowers increasingly rely on non-bank lenders

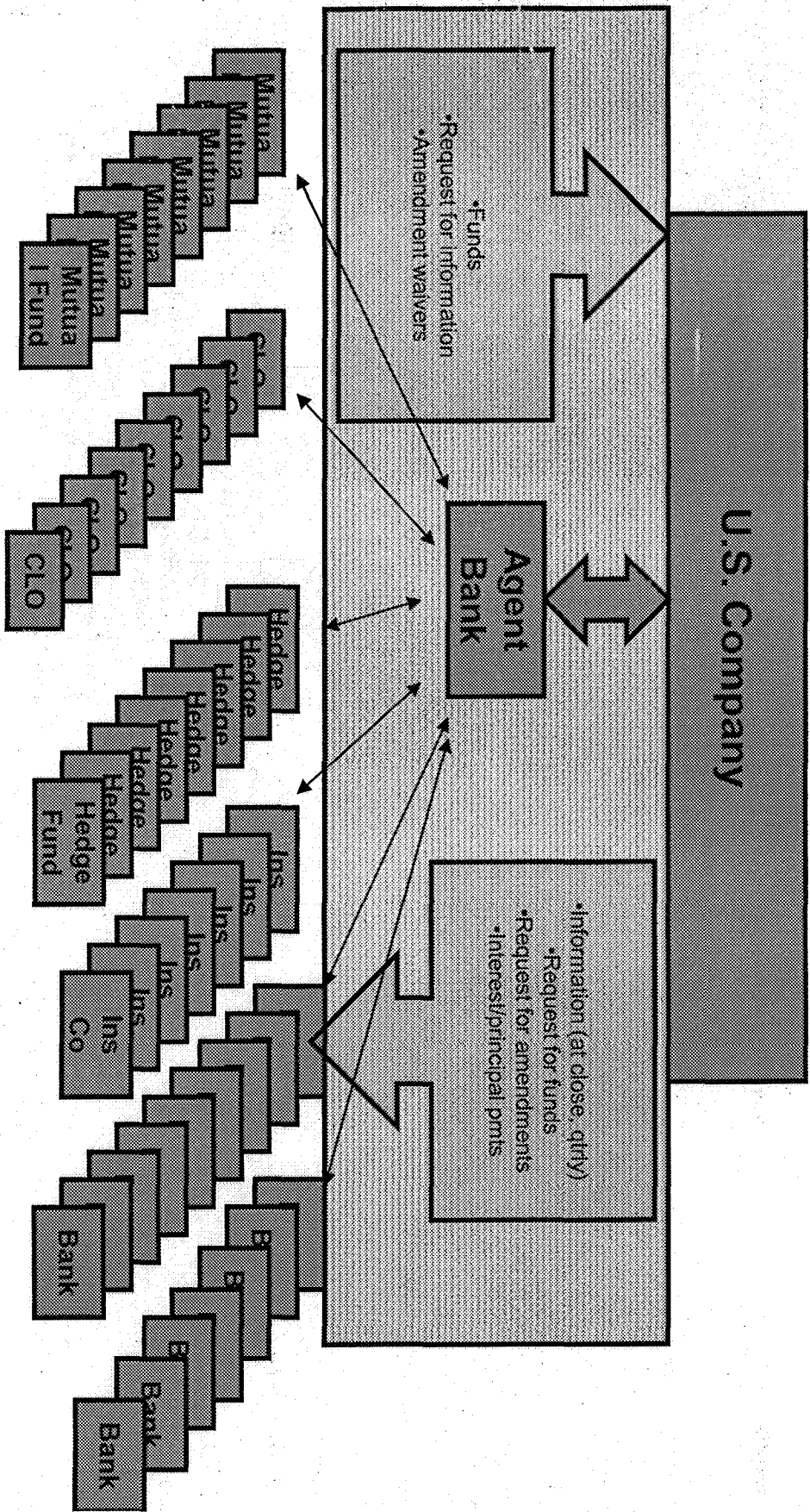
# Term loan lenders to non-investment grade borrowers have evolved



Source: S&P/Capital IQ/ LCD

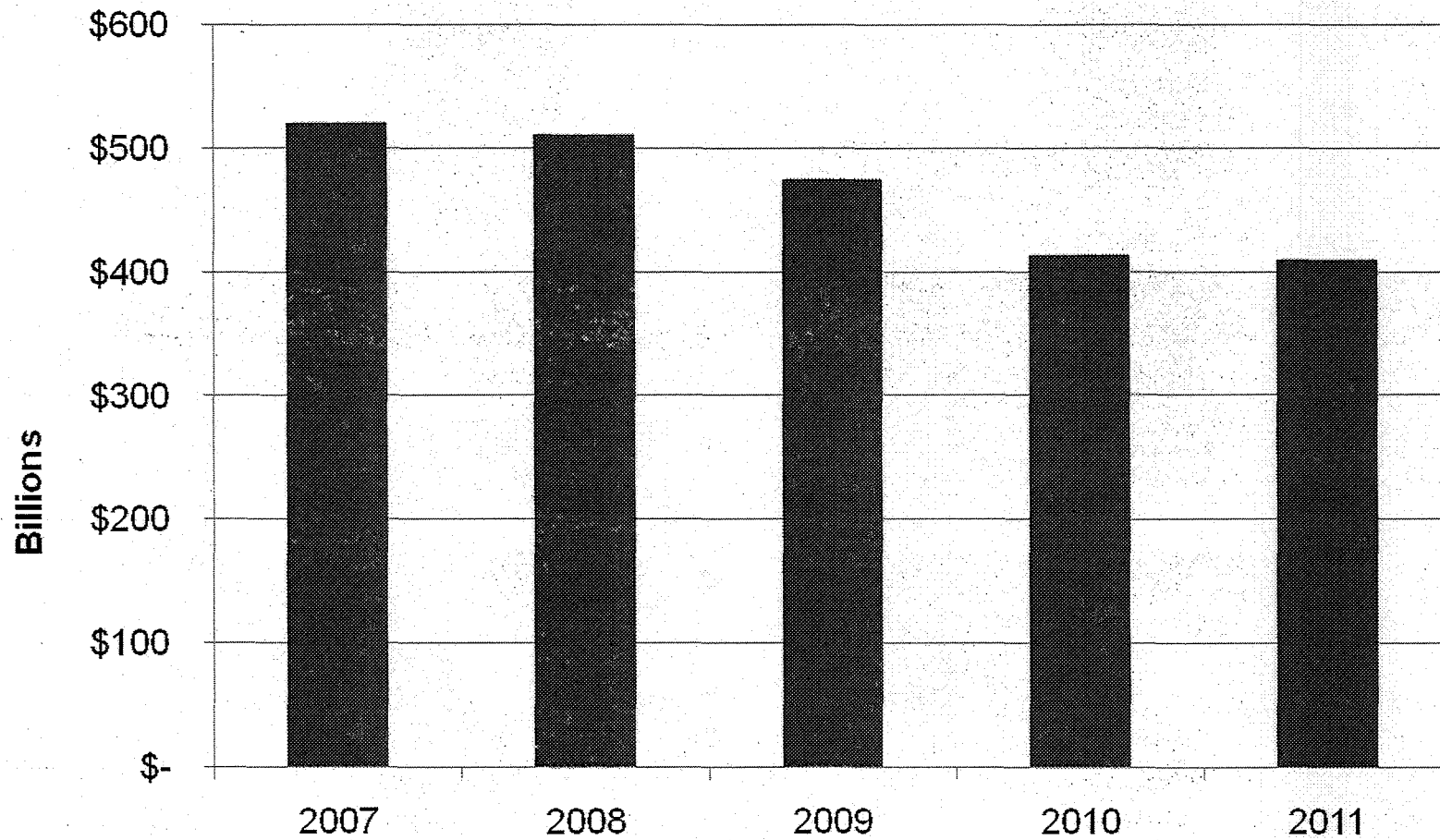
# How a syndicated loan works

(Continual engagement between agents, borrowers and lenders)





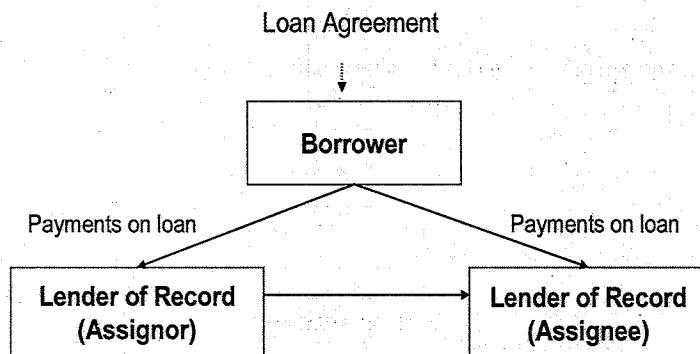
## Loans trade in the secondary market



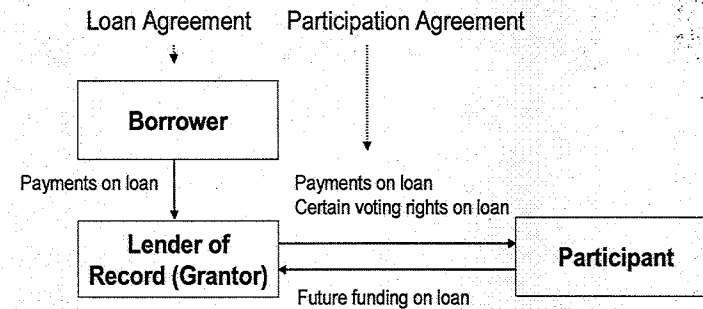
- Loans trade by assignment or participation
- Due to broad language, some participations might be considered swaps under Title VII

# Loans can trade by either assignment or participation

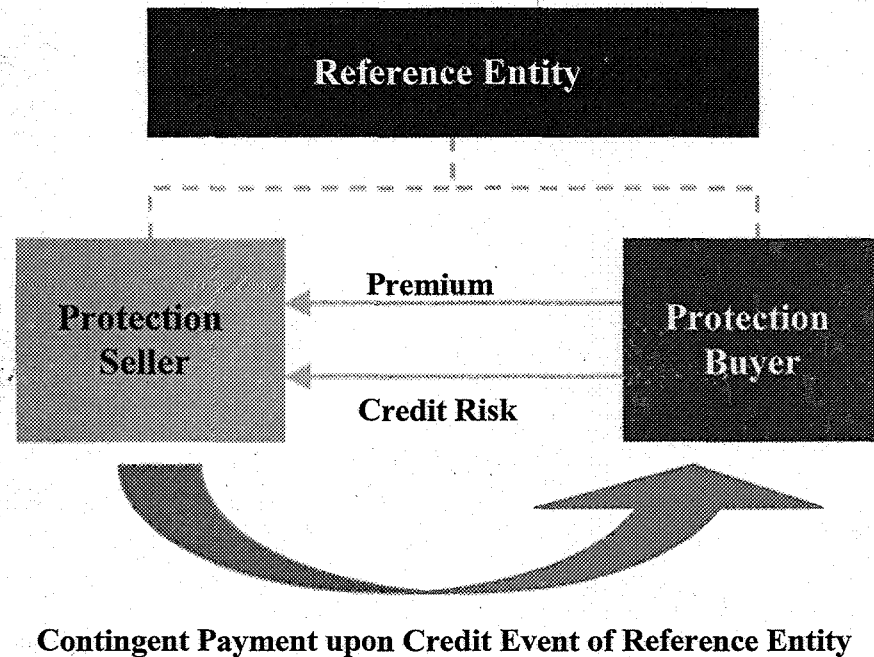
## Assignment



## Participation



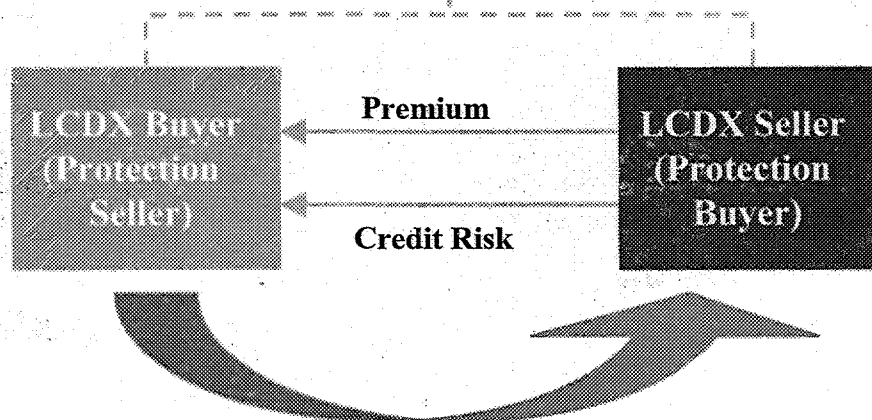
## What is Single-Name LCDS?



- CDS: contract where two parties exchange the credit risk of a Reference Entity
- LCDS: CDS tailored to loan market (Deliverable Obligations = secured loans)
- If a "Credit Event" occurs in respect of specified "Reference Entity", Protection Buyer will have the right to settle the contract (physical vs. cash settlement)

# What is LCDX?

LCDS	LCDS	LCDS	LCDS	LCDS
LCDS	LCDS	LCDS	LCDS	LCDS
100 equally weighted Reference Entities				
LCDS	LCDS	LCDS	LCDS	LCDS
LCDS	LCDS	LCDS	LCDS	LCDS



**Contingent Payment on 1% of notional upon Credit Event of any Reference Entity in the index**

- Portfolio of 100 equally weighted single-name LCDS contracts representing Reference Entities with most liquid US first lien loans
- Reference Entities selected by active dealers, index "rolls" every 6 months to ensure most liquid names are included

---

## LCDS Key Terms: Credit Events

- Credit Events: Settlement is triggered if one of the following events occurs with respect to the Reference Entity:
  - Bankruptcy
  - Failure to Pay: Failure to make payments in excess of \$1 mil on Borrowed Money obligations
    - Includes bonds and loans
    - Takes into account any applicable grace period

---

## LCDS Key Terms: Deliverable Obligations

- Limited to Secured Loans
  - Loans must meet the definition of “Syndicated Secured” in order to be deliverable
  - Syndicated Secured means an obligation
    - (i) that arises under a syndicated loan agreement and
    - (ii) that, on the relevant day, “trades as a loan of the Designated Priority” under the then-current trading practices in the primary or secondary loan market, as the case may be
  - LCDS Designated Priority = First Lien

---

## LCDS Key Terms: Settlement

- Auction cash settlement
  - LCDS dealers determine whether to hold an auction and compile list of Deliverable Obligations
  - Auction occurs on one day and determines single price for list of Deliverable Obligations
    - Physical settlement component enables interested parties to physically deliver loans
  - All outstanding LCDS contracts cash settle at Auction Price
    - Protection Seller pays 100% minus Auction Price multiplied by notional amount
- Physical Settlement Fallback: Protection Buyer delivers Deliverable Obligation in exchange for par payment