Corporate Bond Underwriting and Distribution Practices

Presentation to the U.S. Securities and Exchange Commission

July 1, 2015

The Credit Roundtable
In association with the Fixed Income Forum

The Credit Roundtable ("CRT") was formed in 2007 by a group of large institutional fixed income managers. Currently, CRT has 35 member firms which include investment advisors, insurance companies, pension funds, and mutual funds, representing more than $3.5 trillion of fixed-income assets under management.

The object of the CRT's efforts is to benefit all bond market participants through increased transparency, efficiency and liquidity. Its primary mission is to advocate for and facilitate improvements in the market for corporate bonds by, among other things, strengthening bondholder covenant protections and promoting reforms in the underwriting and distribution of new issues, as well as in the tender offer and consent process. More information about the CRT and its efforts is available at www.creditroundtable.org.

Summary

The corporate bond market is an important source of capital for a wide range of companies. The size of the market and the number of issuers have grown rapidly in recent years, spurred by the borrowing needs of companies from around the globe, historically low interest rates, and strong demand from investors seeking incremental sources of yield for their portfolios.

The CRT believes that the market generally functions well, intermediating the needs of borrowers and investors. However, we have grown increasingly concerned that the underwriting and distribution process for corporate bonds has material flaws that may create significant risks to the investing public, including sophisticated institutional investors.

Our main concerns surround such issues as the time allowed for investors to make informed purchase decisions, the availability of and access to important information, disclosure on the use bond proceeds, and the timing of new issue allocations and pricing.

We hope to engage in a formal dialogue with underwriters, issuers, and their legal counsel to establish improved market practices that will provide additional protection to investors, while helping to ensure that the debt capital markets remain open and available to issuers at fair and reasonable terms throughout the economic cycle, including inevitable periods of market stress.

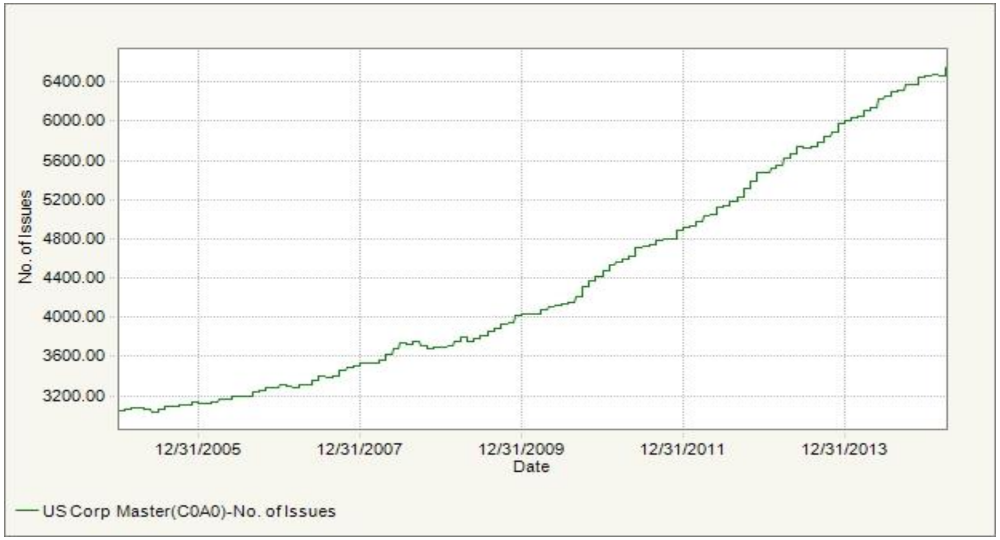
The CRT believes that it would be extremely helpful for the Securities and Exchange Commission staff to join with us in this process, providing regulatory expertise and guidance, as well as encouragement to the interested parties about the importance of their good faith participation in this effort.

Corporate Bond Market Background

The U.S. Investment Grade Corporate Bond market has a market value of $5.3 trillion, up from $3.1 trillion as of March 31, 2010. The market consists of 6,551 issues from 1,109 issuers, up from 4,034 issues from 784 issuers five years ago. The number of issues has more than doubled over the past ten years.

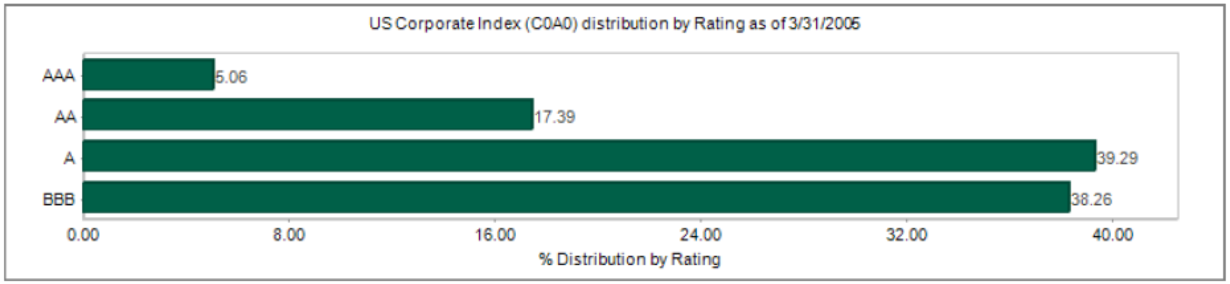
Approximately 70% of the current index market value is from U.S. domiciled companies, down from 74% five years ago and 85% ten years ago.

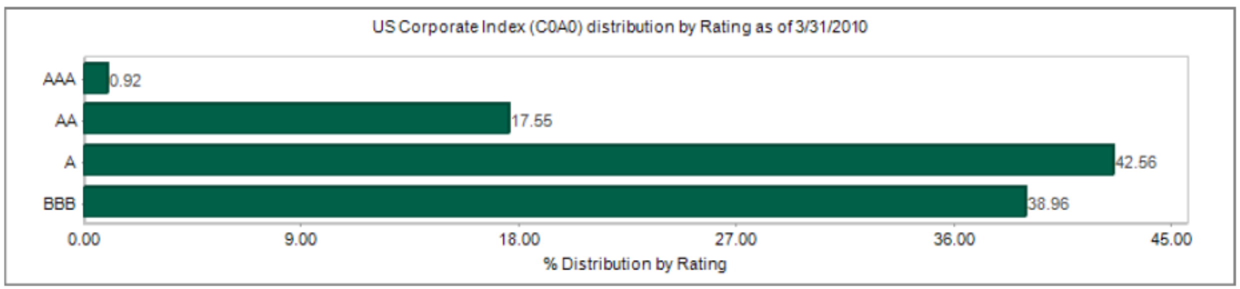
Number of Issues in BofA Merrill Lynch US Corporate Index

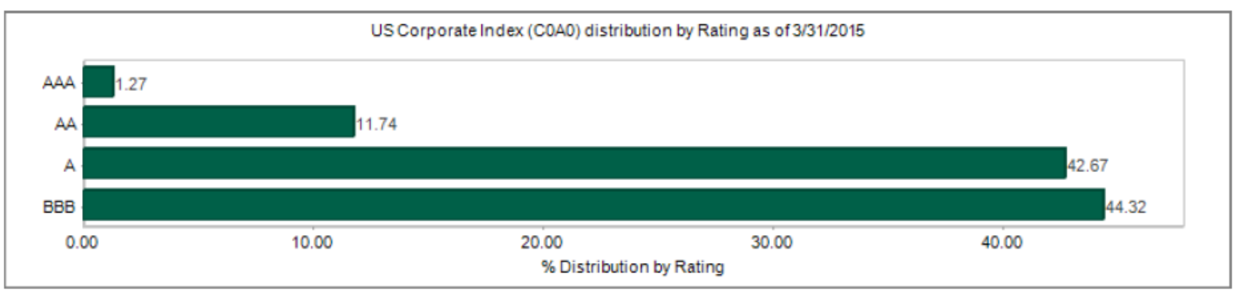


The Credit Roundtable
In association with the Fixed Income Forum

Overall corporate credit quality has declined in recent years, underscoring the need for more intensive credit analysis.





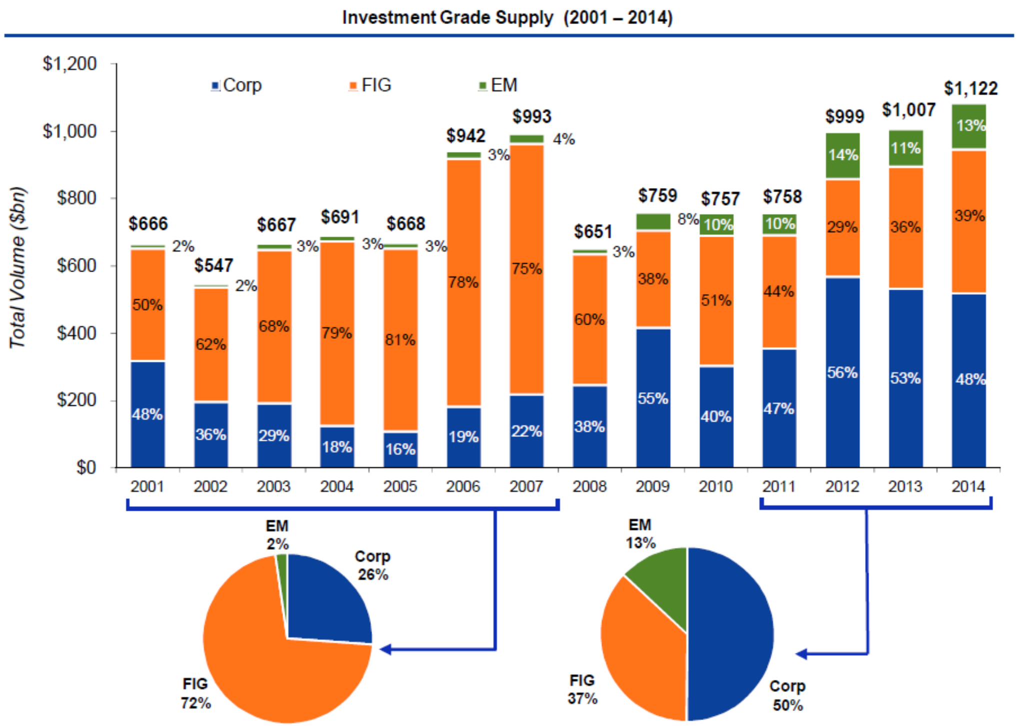


Source: BofA Merill Lynch (as of March 31, 2015)

Issuance Continues to Grow

Investment grade debt issuance was a record $1.1 trillion in 2014. First quarter 2015 supply of $345 billion was up 12% over the prior year.

Investors continue to see new borrowers from both developed and emerging markets, highlighting the greater sovereign risk component imbedded in many corporate issues. There are also more complex issue types that require additional credit and structural analysis.



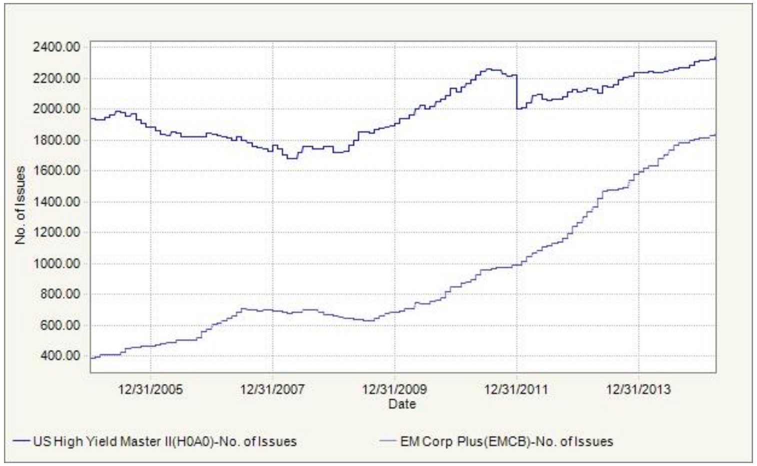
Source: Deutsche Bank Securities

The significant growth of the high yield and emerging market corporate bond markets puts added day-to-day pressure on the resources of many CRT member firms, including those with large staffs of research analysts.

The U.S. High Yield Corporate Bond market has a market value of $1.4 trillion, up from $851 billion as of March 31, 2010. The market consists of 2,335 issues from 1,088 issuers, up from 1,965 issues from 894 issues five years ago.

The U.S. dollar denominated Emerging Market Corporate Bond market has a market value of $1.3 trillion, up from $431 billion five years ago. The market consists of 1,836 issues from 796 issuers, up from 711 issues from 373 issuers five years ago.

Number of Issues in BofA Merrill Lynch US High Yield and EM Corporate Plus Indices



Source: BofA Merrill Lynch (as of March 31, 2015)

Examples of Current Market Practices that Concern the Credit Roundtable

New-Issue Timing

Most new investment grade bond issues are announced and priced on the same day. From the time issues are announced (usually early to mid morning New York time), investors generally have a short period to analyze the issue, review covenant protections, and decide if they are comfortable participating at indicated price guidance.

There appears to be no accepted standard on how price guidance may be disseminated. Some underwriters will only discuss over the phone, while others will provide guidance through Bloomberg messages.

New-issue order books can close as soon as 15 minutes after the transaction announcement, while some may stay open for several hours. The average tends to be in the 1-2 hour range, but there is no consistent basis for determining when order books for any individual transaction may close.

Books can often close with short notice, inserting a sense of urgency into the process. Underwriters often send out updates indicating high levels of oversubscription, further pressuring investors to make decisions.

We believe there is often inadequate time for analysts to thoroughly review issuer fundamentals, structural features, and covenant protections allowing them to make well-informed decisions and investment recommendations about new issues. This is a persistent problem even for institutional investors that have large staffs of experienced credit analysts.

New-Issue Timing

Deal Announcement Email Example 1

Announcement Date: 06/24/15

Fw: *** NEW ISSUE *** Brown-Forman Corp (BFB), 30YR, IPT 155A-

Issuer: Brown-Forman Corp (BFB)
Current Ratings: A1 / A- / A+ (Stable Across)
Format: SEC Registered
Size: $350 Million
Marketing: e-RED; NetRoadshow
Tenor: 30-Year FXD 07/15/2045
Ranking: Senior Unsecured
Denoms: $2,000 x $1,000
Optional Redemption: Make-whole call
6-Month Par Call (30-Yr Notes)
Active Bookrunners: CITI, BARC, BAML, USB
Passive Bookrunners: DB, WFS
Co-Managers: TBD
Use of Proceeds: General Corporate Purposes
B&D: CITI
CAD Sales: Relying on the exemption
Timing: Today's Business
Settlement: T+3 06/27/2015
NetRoadshow: www.NetRoadshow.com / Password: BFB4529

New-Issue Timing

Deal Announcement Email Example 2

Announcement Date: 06/23/15

*** NEW ISSUE: H.J. HEINZ COMPANY ***

Issuer/Ticker	H.J. Heinz Company
Issue Ratings	Moody's: Baa3/Stable (exp) S&P: BBB-/Positive
Guarantor	H.J. Heinz Holding Corporation
Format	144A/Reg S with Reg Rights
Ranking	Sr Unsecured Note
Total Size	Benchmark

Tenor	2 Year	3 Year	5 Year	7 Year	10 Year	20 Year	30 Year
Maturity Date	Jun 30, 2017	Jun 29, 2018	Jun 30, 2020	Jul 15, 2022	Jul 15, 2025	Jul 15, 2035	Jul 15, 2045
Coupon Type	Fixed and/or Float	Fixed and/or Float	Fixed	Fixed	Fixed	Fixed	Fixed
Tranche Currency	USD	USD	USD	USD	USD	USD	USD
Optional Redemption	Make Whole Call (fxd); Change of Control: Price 101.	Make Whole Call (fxd); Change of Control: Price 101.	Make Whole Call; Par Call: 1 month(s) prior to maturity. Change of Control: Price 101.	Make Whole Call; Par Call: 2 month(s) prior to maturity. Change of Control: Price 101.	Make Whole Call; Par Call: 3 month(s) prior to maturity. Change of Control: Price 101.	Make Whole Call; Par Call: 6 month(s) prior to maturity. Change of Control: Price 101.	Make Whole Call; Par Call: 6 month(s) prior to maturity. Change of Control: Price 101.

Special Redemption	If the merger of Kraft with the Issuer is not consummated on or prior to March 31, 2016, or, if prior to such date the Merger Agreement is terminated, the Notes will be subject to a special mandatory redemption at a special mandatory redemption price equal to 101% of the principal amount of the Notes, plus accrued and unpaid interest from the issue date of the Notes, up to, but not including, the date of such special mandatory redemption. See "Description of the Notes—Special Mandatory Redemption."
Use of Proceeds	Proceeds to repay in full the Heinz Term Loan Facility, to redeem all of the Heinz 2020 Notes, to repay in full the Kraft Revolving Credit Facility, to pay fees and expenses related thereto and to this offering and for other general corporate purposes.
Settlement	T+5 (Jun 30, 2015)
Denominations	2,000 x 1,000
Sales into Canada	No
Bookrunner	Active: BARCS, CITI, JPM, WFS Passive: GS, MS
Co-Managers	TBD
Marketing	www.netroadshow.com/nrs/wp/default.html?show=Fd830C Passcode: HEINZ8989

New-Issue Timing

Timeline Example

H.J. Heinz Company – June 23, 2015

Time	Step
8:45am	Underwriters announce a new issue, via Bloomberg system, phone and instant Bloomberg (IB). This is an <u>eight</u>-tranche deal, initially expected to total $8 billion. Use of proceeds – provide a portion of the purchase price of Kraft Foods. Initial price "talk" (IPT) provided – not official guidance, simply the start of the process to determine pricing.
	Sales force begins discussions regarding investors' interest and price expectations (price discovery).
	Investors attempt to evaluate the issuer's credit quality and prospectus terms.
	Net roadshow available.
10:11am	Preliminary prospectus made available direct from underwriters. It is 140 pages, including 30 pages of "Description of Notes", which includes the covenants. "Indenture" mentioned 117 times but only by reference, it is not available.
11:30am	Deal goes subject (orders after this time are submitted on best-efforts basis).
12:45pm	Revised price guidance issued: 20-25bp inside of IPT. Total amount raised to $10bn.
4:30pm	Underwriters advise investors of their allocations.
4:59pm	Deal is priced. *Late-day pricing and allocations cause difficulty in hedging interest rate exposures and selling securities if need be to finance purchase.*

Availability of Information

The short period to make decisions is often exacerbated by a lack of important information.

Preliminary prospectuses and bond indentures may be unavailable to investors, making it impossible to understand covenant protections or to see updated risk disclosures. Investors may also not have timely access to disclosures about issue ERISA eligibility.

When available, covenant descriptions and terminology may be unnecessarily complicated and obtuse, potentially providing issuers with ways to get around the intended protections; the lack of standardized covenant definitions requires more time to analyze each legal document.

Once a deal is announced, there is often limited or no contact available with issuer management, making it impossible for investors to ask questions or clarify concerns. The historical day-of issuer conference call has been entirely eliminated or replaced with pre-recorded net roadshows.

When there are new issue or non-deal roadshows in advance of an issue, investors are usually not permitted to retain any handouts or other information from those meetings. In addition, investors are not allowed to discuss deal terms and structures with issuers.

Updated rating agency opinions and final ratings are often not available when transactions are announced or prior to order books closing, raising compliance concerns for some investors.

Availability of Information

Example of Challenge Obtaining Indentures – Precision Castparts 2015 Issuance

From June 2015 Prospectus Supplement

INCORPORATION OF INFORMATION BY REFERENCE

The SEC allows us to " incorporate by reference" the information that we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be important part of this prospectus. Later information that we file with the SEC will automatically update and supersede this information. We incorporate by reference the following documents filed with the SEC (other than, in each case, documents or information deemed to have been furnished and not filed in accordance with SEC rules):

1. Our Annual Report on Form 10-K for the year ended April 1, 2012;
2. The information specifically incorporated by reference into the 2012 Form 10-K from our definitive proxy statement on Schedule 14A dated July 3, 2012;
3. Our Quarterly Reports on Form 10-Q for the quarters ended July 1, 2012 and September 30, 2012;
4. Our Current Reports on Form 8-K dated August 14, 2012, November 9, 2012 and November 15, 2012.
5. Future filings we make with the SEC under Sections 13(a), 13(c), 14 and 15(d) of the Securities Exchange Act of 1934 (the " Exchange Act") after the date of this prospectus and before the termination of the offering of securities.

Availability of Information

Example of Challenge Obtaining Indentures – Precision Castparts 2015 Issuance

From 11/21/2012 Registration Statement

+4.1	Indenture between Precision Castparts Corp. and U.S. Bank, National Association (as successor to J.P. MorganTrust Company, National Association, which was the successor to Bank One Trust Company, N.A., which was the successor to The First National Bank of Chicago) as Trustee (incorporated herein by reference to Exhibit 4 to the Form S-3 filed on November 28, 1997)
+4.2 Trust	First Supplemental Indenture dated as of June 30, 2001 between U.S. Bank, National Association (as successor to J.P. Morgan Trust Company, National Association, which was the successor to Bank One Company, N.A., which was the successor to The First National Bank of Chicago), as Trustee and PCC (incorporated herein by reference to Exhibit 4.6 to the Form S-4 filed September 23, 2003)
+4.3	Second Supplemental Indenture dated as of December 9, 2003 among U.S. Bank, National Association (as successor to J.P. Morgan Trust Company, National Association, which was the successor to Bank One Trust Company, N.A., which was the successor to The First National Bank of Chicago), as Trustee, PCC and the guarantors named therein (incorporated herein by reference to Exhibit 4.2 to the Form 10-Q filed February 11, 2004)
+4.4 (as	Third Supplemental Indenture dated as of December 9, 2003 among U.S. Bank, National Association successor to J.P. Morgan Trust Company, National Association, as successor to Bank One Trust Company, N.A., which was the successor to The First National Bank of Chicago), as Trustee, PCC and the guarantors named therein (incorporated herein by reference to Exhibit 4.3 to the Form 10-Q filed February 11, 2004)
+4.5	Tri-Party Agreement dated as of August 18, 2005 by and among PCC, J.P. Morgan Trust Company, National Association, as resigning trustee, and U.S. Bank National Association, as successor trustee (incorporated herein by reference to Exhibit 4.8 to the Form 10-K filed June 14, 2006)
*4.6	Form of supplemental indenture or other instrument establishing the issuance of one or more further series of debt securities (including form of debt security)

* To be filed as an exhibit to a Current Report on Form 8-K or other report to be filed by the Company in connection with a specific offering.

+ Incorporated by reference.

Availability of Information

Problematic Prospectus Language Examples-Fortune Brands June 2015 issue

1. Where is the indenture? Why don't investors have easy access to it and time to review it before the deal prices and closes?

We will issue debt securities in one or more series under an indenture to be entered into after the date of this prospectus among us and Wilmington Trust, National Association, as Trustee, and Citibank, N.A., as Securities Agent, the form of which has been included as an exhibit to the registration statement. The indenture may be supplemented from time to time. Any indenture supplement we elect to use for debt securities issued under the indenture will be filed with the SEC. The terms of the debt securities of any series will be those specified in or pursuant to the indenture, any supplemental indenture we use for those debt securities, the applicable debt securities for that series and those made part of the indenture by the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act").

This prospectus includes a summary of the indenture. This summary does not include or reflect any changes that may be made through any supplemental indenture. Any supplemental indenture may affect some or all debt securities we issue under the indenture. You should refer to the specific terms of the indenture, and any supplemental indentures we may file, for more detailed information and not rely only on the summary in this prospectus, or any summary contained in any applicable prospectus supplement. Some of the capitalized terms used in the following discussion are defined in the indenture. Those definitions are incorporated by reference into this prospectus. When we use italics, we are referring to sections in the indenture. Wherever we refer to particular provisions of the indenture, those provisions are incorporated by reference in our summary.

Availability of Information

Problematic Prospectus Language Examples

2. See sentence that says, “Before making an investment decision, you should read both this prospectus and any applicable prospectus supplement together with the additional information described under the heading “Where You Can Find More Information” in this prospectus in their entirety.”

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the SEC utilizing a “shelf” registration process. Under this shelf registration process, we may, from time to time, sell the debt securities described in this prospectus in one or more offerings. This prospectus provides you with a general description of certain terms of the debt securities we may offer. Each time we sell debt securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering and the debt securities offered thereby. The prospectus supplement may also add, update or change information contained in this prospectus. In addition, we may include a description of the risks related to an investment in the debt securities described in an applicable prospectus supplement. Before making an investment decision, you should read both this prospectus and any applicable prospectus supplement together with the additional information described under the heading “Where You Can Find More Information” in this prospectus in their entirety.

3. Meaningful language here that’s not well highlighted.

Under the terms of the Indenture, we may restructure our restricted subsidiaries without your consent in a manner such that they could no longer be deemed restricted subsidiaries and not subject to our restrictive covenants in the Indenture. This may have a material and adverse effect on the trading value of your notes.

Limited Disclosure of Risk Factors and Potential Use of Proceeds

Risk factors disclosed in the prospectus are often generic and lack company-specific details that are important to the investment decision.

The intended use of proceeds, which can be a material credit factor, is often described only as "general corporate purposes." We believe more detailed statements on how proceeds may be used should be required as a fundamental investor protection.

There have been situations where companies have issued debt and subsequently announced material corporate actions or mergers and acquisitions. These plans were not disclosed to debt investors at the time of issue. *There does not appear to be a clear standard of what issuers must disclose or what post-transaction recourse investors have upon lack of material disclosures.*

Investors have little understanding of the role underwriters play in performing due diligence on proposed transactions and what standard they are held to if material facts were not disclosed.

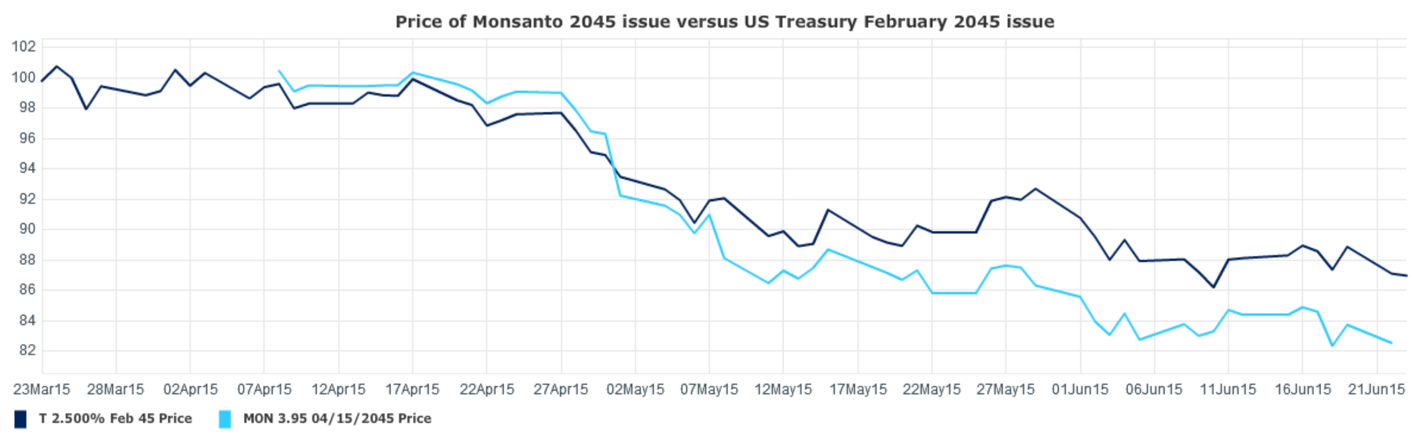
Limited Disclosure of Risk Factors and Potential Use of Proceeds

Questionable Disclosure Example

On April 7, 2015 Monsanto sold a total of $800mm 10 and 30 year bonds at spreads over US Treasuries of +100 basis points (bps) and +145 bps. Stated use of proceeds were “General corporate purposes, which may include share repurchases and capital expenditures.” Disclosed risk factors were limited and made no mention of the potential for significant near-term acquisitions.

In late April press reports indicated that Monsanto had made a bid to acquire Syngenta, which was rejected. Monsanto confirmed these reports in early May and said that they would continue to pursue this $45 billion cash and stock acquisition on a hostile basis.

Monsanto credit spreads immediately responded to the news. As of June 19th, 10 year maturity spreads were quoted +149 bid (49 bps wider from initial pricing), trading at a $92 dollar price. 30 year maturity spreads were quoted +189 bid (44 bps wider from initial pricing), trading at an $83 dollar price. Over the same period the Barclays US Corporate Bond Index was 14 bps wider. Investor “loss” estimated at $35mm.



Key	Last	Minimum		Maximum		Mean	SD	SD Chg
	86.985	86.204	06/10/2015	100.762	03/24/2015	93.505	4.706	1.094
	82.540	82.340	06/18/2015	100.460	04/08/2015	90.250	6.301	1.113

Source: Barclays Live - Chart

Logistical and Timing Issues

An increasing number of new issues have minimum denominations of $200,000 x $1,000, compared to the older standard of $2,000 x $1,000. These larger minimum denominations can be problematic for smaller funds, sometimes making adequate risk diversification difficult or impossible.

New issue allocations are often released late in the business day, followed by pricing. Transactions are sometimes priced very late in the business day. Late-day pricings, sometimes after 4:30 pm, create many problems for investors.

Investors may not be able to hedge interest rate risk or fund the transaction by selling other corporate bond issues, leaving them exposed to interest rate movements and credit events overnight.

The process and time required to get new issue CUSIPs and to set up new issues in trading systems means that many committed purchases may not be entered into trading and accounting systems on a same-day, timely basis.

Discussion Items on Potential Ways to Improve the Underwriting and Distribution Process

New Order Process and Timing

- Allow more time for analysis before order books close; consider a minimum required period to keep books open and a minimum notice period before books formally close
- Clarify permitted methods of price guidance dissemination
- Require accurate disclosure of size of order book during and post transaction
- Encourage issuers to consider smaller minimum denomination sizes
- Price all transactions no later than 4 pm New York time; Any transaction that cannot be priced before 4 pm should be held over until the next business day

Availability of Information and Disclosure

- All important documents, including a prospectus, should be made available electronically no later than the time of transaction announcement

- Material changes in indentures or covenants from prior transactions should be highlighted

- Hyperlinks to other relevant documents (trust indenture, bank loan agreements, etc.) should be incorporated into the prospectus. This approach was adopted in the recent SEC no-action relief relating to certain debt tender offers
  http://www.sec.gov/divisions/corpfin/cf-noaction/2015/abbreviated-offers-debt-securities012315-sec14.pdf

- Standardize covenant wording and definitions across transactions, consistent with the Credit Roundtable's model covenant White Paper

- Provide greater access to management during transaction marketing periods and permit retention of materials from all deal and non-deal roadshows

- Require greater clarity on use of proceeds and greater disclosure on any pending corporate activity that may have a material credit impact. Clarify overall standards of disclosure and underwriter due diligence

- Prohibit companies from eliminating regular audited financial statements of subsidiary entities that have outstanding debt unless those entities are fully guaranteed by the parent

The Credit Roundtable Contact Information

Lyn Perlmuth
(212) 224-3074
lperlmuth@iimemberships.com

Co-leaders
Chris Gootkind
Loomis, Sayles & Co.

David Knutson
Legal and General Investment Management America