

Special Comment

Moody's Global Corporate Finance

April 2008

Credit Roundtable Adopts a Contract-Based Approach to Mitigating Event Risk

Table of Contents:

Addressing a Perennial Credit Risk by Improving the Terms of the Contract Covenants Matter: A Case Study of the C\$52 billion BCE Inc. LBO	2
Roundtable's Model Covenants Seek to Simplify Structure and Expand Protections	4
Conclusion	6
Moody's Related Research	7

Analyst Contacts:

New York 1.212.553.1653

Alexander Dill

Vice President/Senior Covenant Officer

Tom Marshella

Group Managing Director

Mike Rowan

Senior Managing Director

London 44.20.7772.5454

Michael West

Group Managing Director

The Credit Roundtable's ("Roundtable") proposal of standardized model covenants¹ ("Model Covenants") marks an important development in the investment-grade bond universe – particularly at this juncture in a buyer's market. The Roundtable, which represents over fifty fixed-income investors, seeks to strengthen substantive legal protections against unexpected events, frequently initiated by issuers themselves, which can lead to sudden credit deterioration in investment portfolios. Among other things, the Roundtable initiative would place a meaningful limit on bondholders' subordination in leveraged transactions – its most significant proposal, in Moody's view. The Model Covenants also serve an important educative goal of focusing the fixed-income markets' attention on the role of covenants in protecting against event risk. The Roundtable recognizes that the protection provided by the typical investment-grade indenture is often only superficial, a fact often evident only upon reading the fine print, after the "event" has already materialized.

¹ "Improving Covenant Protection in the Investment Grade Bond Market," December 2007, at www.creditroundtable.org.



Credit Roundtable Adopts a Contract-Based Approach to Mitigating Event Risk

Equally, and perhaps more fundamentally, the initiative stresses the importance of the contract-formation process by standardizing covenants, simplifying their often convoluted structure and by seeking to alter the dynamics of the investment-grade road show. A simplified, uniform covenant structure would make it easier for investors to quickly grasp the strengths and weaknesses of a given covenant package and compare it against its market peers. By such reforms, the Roundtable seeks to “facilitate negotiations before bond offerings are launched” as well as during marketing,² an unobjectionable goal in light of the hurried timeframe of investment-grade bond sales. Recognizing that a single comma or modifying clause can be critical, the Roundtable proposes that offering materials use the “exact wording” of the indenture because important details may be left out in “plain English” summaries.³ The Roundtable initiative offers issuers a menu of covenant riders and exceptions, whose selection depends on the degree of flexibility or pricing benefits they desire. In a word, the Roundtable wants not only a more meaningful dialogue with the issuer community, but also a “meeting of the minds” in establishing the terms of the bond contract.

The Roundtable initiative is already having an impact, with several deals in 2008 adopting most of its “change of control” version.⁴

Moody's does not endorse the position of any one market constituency. Nevertheless, we believe that in emphasizing bondholders' contractual rights and remedies by making them more transparent and easier to grasp, the Roundtable adopts the appropriate approach to mitigating event risk. For its own part, Moody's has endeavored to meet market demand for such transparency through its own Covenant Quality Assessment service, launched in late 2006, by highlighting gaps in bondholder protection on individual bonds against a set of predefined objective criteria.⁵ Additional information on this research service can be found at Moody's covenant home page: moody.com/covenants.

This special report attempts to place the Roundtable initiative in the historical context of the fixed income market's experience with event risk and the various ways it has addressed it. We then summarize the key features of the Model Covenants and highlight some of their strengths and weaknesses.

Addressing a Perennial Credit Risk by Improving the Terms of the Contract

Event risk is a perennial risk for fixed income investors, although its prevalence at any one time is undoubtedly influenced by market dynamics such as the current credit market turmoil. Over two decades ago during an upward trend in the event-risk cycle, Harold Goldberg, a Moody's official, said:

Today, the difficult thing about debt rating is not evaluating business fundamentals. Rather, our greatest challenge comes in attempting to anticipate financial decisions that can have an immediate and negative impact on credit quality.⁶

Event risk comes in many forms: buy-outs, mergers & acquisitions, debt-financed equity buy-backs and recapitalization, and asset divestitures and spin-offs. It is not restricted to the private-equity driven LBO wave that ended abruptly in summer 2007. Even during the current downward trend, the abundance of institutional money in the global economy allows various institutional players – private equity, pension funds, sovereign wealth funds – to continue to fund takeovers or investments, but perhaps with greater deliberation and a certain degree of opportunism.

² Credit Roundtable press release, December 17, 2007.

³ In 1998, the SEC mandated that certain portions of a prospectus be in “plain English” and gave guidance on how to make the entire prospectus “clear, concise, and understandable.” Securities Act Release No. 33-7497 (January 28, 1998). Ironically, the Roundtable rejects the philosophy underlying the SEC rule, insisting on the language of the governing legal instrument, unadulterated by an attempt to simplify it for “readability.”

⁴ See, e.g., Moody's Corporate Finance, *Covenant Quality Assessment: Target Corporation*, January 31, 2008 and Sysco Corporation's February 2008 offering of \$750 million of Senior Notes (Prospectus Supplement, February 7, 2008). More recently, see Monsanto Corporation, Prospectus Supplement (April 10, 2008).

⁵ See “Moody's Approach to Evaluating Indenture Covenants and Assigning Covenant Quality Assessments,” November 2006.

⁶ From a 1984 speech. See Moody's Special Comment, “Event Risk: Moody's Amplifies its Views on Indenture Protection Issues,” January 5, 1989 (hereafter, “Event Risk”), at 8.

Credit Roundtable Adopts a Contract-Based Approach to Mitigating Event Risk

The Roundtable's focus on "verbatim disclosure of indenture provisions" reflects an understanding that whatever protections bondholders will have will be in the contract – the indenture or other legal instrument governing the obligations of issuers and the rights of bondholders.⁷ Courts have repeatedly rejected any remedies for sudden credit downgrades outside of the bond indenture.

Courts' limitation of bondholder rights to contractual remedies was recently illustrated by an Ontario court's March 2008 ruling on a bondholder suit seeking redress for prospective losses on existing bonds of BCE Inc. and Bell Canada due to a planned \$52 billion leveraged buyout of BCE Inc. Moody's expects that the transaction will increase book debt by 300%, "transforming the company's risk profile," and result in a corporate family rating in the **B2** to **Ba3** range, a sharp decline from the current **Baa1** senior unsecured/issuer rating (on review for possible downgrade).⁸ Rejecting the bondholders' claim that the proposed transaction was not in good faith, or "fair and reasonable," the court held that the transaction "does not, in any way, alter or arrange the legal rights of the [bondholders]. They have the same right to be paid principal and interest by Bell Canada"⁹

Covenants Matter: A Case Study of the C\$52 billion BCE Inc. LBO

When one examines the details of the differing terms of the covenant protections in the various Bell Canada bonds in the context of the proposed C\$52 billion LBO of BCE Inc., the superior position of certain bondholders – in particular, those owning bonds issued under the 1976 Bell Canada indenture – becomes evident.

In its April 2007 Covenant Quality Assessment on Bell Canada's 1976 indenture, among other covenants, Moody's assessed the debt incurrence and liens covenants. We estimated that Bell Canada had C\$3.2 billion of debt capacity relating to *pari passu* debt. In BCE Inc.'s proposed transaction structure, Bell Canada's senior unsecured bonds under the 1976 indenture would become secured under that subsidiary's upstream guarantee of BCE Inc.'s new acquisition debt and share the security package of the lenders of the acquisition financing to the extent of approximately C\$3.2 billion. This cap on the senior secured debt at the Bell Canada level resulted from the combined restrictions imposed by the Bell Canada bonds' liens covenant's equal and ratable requirement and the bonds' debt incurrence covenant that set a limit on the aggregate dollar magnitude of *pari passu* debt.

More specifically, Bell Canada's upstream secured guarantee is divided into two components, a C\$3.2 billion portion with a *pari passu* security position shared by both the acquisition lenders and the Bell Canada bondholders, with the balance held by the acquisition lenders in a second ranking secured position that is not shared with any other creditor class.¹⁰ Due to the superior position of the 1976 Bell Canada bonds, Moody's would assign the C\$4.895 billion of bonds (currently rated **Baa1**) a debt instrument rating ranging from **Ba2** to **Baa3**, depending on the eventual corporate family rating assigned to the new company. In contrast, other existing bonds in the transaction structure (BCE and Bell Canada) could receive ratings ranging from **Caa1** to **Ba2**.

⁷ Debtholders must protect themselves by contractual means. In contrast, equityholders have a range of protections in corporate law: voting rights, fiduciary protections and standing to bring derivative suits. Debtholders decide their risk for themselves, chiefly with respect to interest rate, security interests and/or by covenants. Hideki Kanda, "Debtholders and Equityholders," *The Journal of Legal Studies*, vol. 21, no. 2 (June 1992), at 440.

⁸ Moody's Corporate Finance, Rating Action: BCE Inc. (April 17, 2007).

⁹ Judgment, Quebec Superior Court (Commercial Division), *In the Matter of a Proposed Arrangement Concerning BCE Inc. and the Holders of its Common and Preferred Shares Under Section 192 of the Canada Business Corporations Act*, No. 500-11-031130-079 (March 7, 2008), at 29.

¹⁰ See Moody's Corporate Finance, Analysis: BCE Inc. and Bell Canada (October 2007).

Credit Roundtable Adopts a Contract-Based Approach to Mitigating Event Risk

Putting the Roundtable Initiative in Historical Perspective

The Roundtable initiative should be viewed in historical perspective. Although it is difficult to protect against events that are hard to predict when bonds are issued, covenants in the past have been proven to be effective, particularly prior to the 1980s (when Bell Canada's 1976 indenture was drafted). The Roundtable seeks to reestablish covenants as a meaningful source of credit protection by reversing an erosion in covenant protection since that era.

As Moody's noted nearly two decades ago based on a comprehensive analysis of existing covenant protection, a typical package prior to 1980 included a debt incurrence covenant, a dividend and stock repurchase restriction in addition to the negative pledge, sale/leaseback and merger/consolidation covenants that form today's trio of core investment-grade covenants.¹¹ The Roundtable initiative appears to acknowledge this bygone era in looking to a ratings-based step-up coupon as an imperfect substitute for a "restricted payments" covenant, which, together with its proposed liens covenant, the Roundtable argues could effectively limit all of an issuer's voluntary actions, including major spin-offs, "credit-destructive leveraged recapitalizations" or leveraged buyouts.

In general, investment-grade covenant protections since the 1970s appear to have been more attempts to appease investors than genuinely protective restrictions against overleveraging. When leveraged acquisitions and recapitalizations emerged in the 1980s,¹² issuers introduced a change of control put option to protect against hostile takeovers in order to sell their bonds. However, these "poison puts," which were conditioned on ratings downgrades, generally provided little protection as they were limited to hostile situations that routinely became "friendly" prior to consummation.¹³ Subsequently, the change of control put form of event-risk protection eventually fell by the wayside until the more recent buyout surge.

In October 2003 a group of fixed income investors in Europe ("Group of 26") published a "consultation document," directed to the issuer community, which sought a dialogue on covenant protections against event risk.¹⁴ The Group of 26 adopted a "best practices" statement of principles approach, which included, among other things, better disclosure and documentation standards, quantitative caps on subordination and asset disposals, and a "fairer standard for call provisions" as a quid pro quo for more issuer flexibility. The group also noted that building a reputation for honesty, being "forthcoming with information" and "recognizing bondholder interests" should reward issuers in lower funding costs and improved access to liquidity.

Although the Group of 26, like the Roundtable, sought a meaningful dialogue and greater transparency in establishing terms and conditions, unlike the latter it did not propose specific contractual language, but instead sought to establish a sense of equity and fairness in the capital markets by raising bondholders to a "stakeholder" status with other issuer constituencies. The Group of 26 initiative, which was launched in a market with ample liquidity, had little practical impact on European bond covenant protections.

Roundtable's Model Covenants Seek to Simplify Structure and Expand Protections

We believe that the Roundtable's proposed Model Covenants by and large improve upon existing versions by closing gaps in protection and expanding restrictive coverage while retaining a flexible framework that would allow issuers sufficient room to continue to operate their business. The Model Covenants' simplified structure also appears to further the Roundtable's objective of furthering investors' understanding of the bond contract's terms and conditions as part of the contract-formation process.

¹¹ Event Risk, at 1.

¹² Marcel Kahan and Michael Klausner, "Antitakeover Provisions in Bonds: Bondholder Protection or Management Entrenchment?," 40 U.C.L.A. L. Rev. 931, at 933. The authors cite a Moody's "Event Risk" report that from 1984 through 1988, bonds of 183 companies, in addition to RJR Nabisco, Inc. lost value as a result of mergers, acquisitions or leveraged buyouts.

¹³ Due to the likelihood of an eventual friendly acquisition, a financial restructuring or the ratings downgrades occurring prior to the event. Event Risk, at 6.

¹⁴ See "Improving market standards in the Sterling and Euro Fixed Income Credit markets," October 2003.

Credit Roundtable Adopts a Contract-Based Approach to Mitigating Event Risk

Change of Control Put Option

Under our analytical framework for put options,¹⁵ the Roundtable offers a stronger version than many existing covenants, albeit still conditioned on downgrades of the bonds to a non-investment-grade rating. We analyze put options in terms of the degree of (1) *conditionality* and (2) *scope of application* which is included in a given version of the covenant. Under our approach, the broader the *scope* of application, the greater the protection, and the greater the *conditionality*, the weaker the protection.

The Roundtable seeks to broaden the *scope of application* and thus strengthen the covenant by making five change of control “events” the market standard – versus the standard version which includes only two or three “events.” In existing versions, a controlling voting share acquisition by any “person,” is nearly ever-present. Also typical is the inclusion of an issuer liquidation or dissolution provision and replacement of a majority of “continuing directors” of the board.¹⁶ The Roundtable initiative also includes an “all or substantially all” assets sale prong, sometimes lacking in existing versions. However, like its identical formulation in the merger/asset conveyance (successor obligor) clause, it is likewise subject to the same legal ambiguity as to what constitutes a sale of “all or substantially all” of an issuer’s assets.¹⁷ We acknowledge that changing such a decades-old formulation would mark a radical departure from existing practice.

The Roundtable seeks to eliminate sources of *conditionality* by (1) no longer requiring rating agencies to state that their downgrade is caused by the event, (2) widening the window during which ratings downgrades must occur to trigger the put by extending the timeframe retrospectively to 60 days prior to the announcement of the pending change of control and (3) deeming the requisite downgrades to have occurred if only one agency continues to rate the bonds investment grade rather than requiring “all” rating agencies to downgrade the bonds. In addition, the Roundtable would remove the contingency in a typical stock-for-stock merger clause which requires that a single “person” or “group” own the surviving corporation, thus encompassing the conventional M&A transaction where one public company acquires another public company. However, unlike some stronger (largely European) investment-grade versions we have seen, the Roundtable put option is not triggered if the bonds are already rated non-investment grade prior to the change of control and such event causes further downgrades or if only one of the rating agencies (of two or more which continue to rate the bonds) downgrades the bonds.

Limitation on Liens and “Priority Debt”

The Roundtable’s model negative pledge/limitation on liens covenant places a limit on the amount of subordination to which bondholders may be subject – through incurrence of both subsidiary debt and secured debt. The Roundtable version of the liens covenant also would advance its transparency objective by significantly simplifying the structure of the covenant. The liens covenant is notorious for including a myriad of gaps in protection against subordinating transactions which require careful examination to discover. The Roundtable version would apply to (1) all types of property¹⁸ of the issuer on a consolidated basis and (2) all subsidiaries of the issuer. Investors would need only to focus on the quantitative carve-out and certain qualitative exceptions in assessing the amount of subordination that might result.

However, the Model Covenant would *not* limit the amount of unsecured debt to the extent such debt is incurred at the issuer’s level.¹⁹ This represents an important gap in coverage. On the other hand, LBOs typically can only be executed on a secured loan basis, with subsidiary guarantees, both of which would be capped under the Roundtable proposal.

¹⁵ Moody’s Investors Service, “Change of Control in European Baa Bonds: Increasingly Common, But Investor Protection Varies,” April 2007.

¹⁶ This prong is typically phrased as the first day on which a majority of the issuer’s board of directors are not “continuing directors,” with a continuing director defined as a director at note issuance or a director who was nominated or elected with the approval of a majority of continuing directors who were board members at the time of such nomination or election. Designed to address hostile takeovers, this “event” prong is not particularly useful.

¹⁷ See Moody’s Corporate Finance, “The Successor Obligor Clause in the Tyco Litigation: Are There Lessons in Bondholder Protection?,” June 2007.

¹⁸ Many existing precedents apply restrictions only to “principal property,” typically plant, property and equipment, leaving unrestricted other assets, such as intangible assets, which may comprise a significant portion of some issuers’ balance sheets. In addition, issuers typically have discretion to designate certain principal properties as “not material” to its business.

¹⁹ “Priority debt,” which is the category limited, limits only “secured” debt incurred by the issuer, while encompassing both secured debt and unsecured debt of the issuer’s subsidiaries. An example of a highly leveraged transaction which the Roundtable proposal would not restrict is the acquisition financing relating to the buyout of Intelsat, Ltd. and its subsidiaries. The parent of the various issuers of high-yield bonds incurred \$3.7 billion of new incremental *unsecured* debt. See Moody’s Corporate Finance, *Covenant Quality Assessments* for Intelsat, Ltd., Intelsat Jackson Holdings, Ltd., Intelsat Intermediate Holding Company, Ltd., Intelsat Subsidiary Holding Company, Ltd. and Intelsat Corporation, April 17, 2008.

Credit Roundtable Adopts a Contract-Based Approach to Mitigating Event Risk

Implied Sale/Leaseback Covenant

Although the Model Covenants package lacks a sale/leaseback covenant, its "Liens and Priority Debt" covenant would impose restrictions on such transactions. Restrictions on sale/leaseback transactions are intended to prevent the issuer from removing fixed assets from its balance sheet without providing a quid pro quo for the reduced debt service capacity (and the resulting increase in secured off- or on-balance sheet debt), either by applying the sales proceeds to reduce senior debt or by reinvesting them in core (fixed) revenue-generating assets.

The Model Covenants apply to sale/leaseback transactions by including "attributable debt" (discounted lease payments) as "priority debt." Sale/leaseback debt is thus treated the same as any other secured debt under the Model Covenants. This marks an improvement over the typical investment-grade covenant package in not carving out any other transactions from the liens restrictions. It retains the concept of a quantitative basket exception ("consolidated net tangible assets") but, unlike the existing sale/leaseback covenant, no other sale/leaseback transactions are permitted. This may be problematic for those issuers which actively use the sale/leaseback arrangement as a financing tool, such as in short-term transactions (typically under three years) or the financing of new projects. However, these could be added as ordinary-course carve-outs as "permitted debt."²⁰

Again, such a simplified approach to sale/leaseback transactions appears to support the Roundtable's transparency goal by eliminating confusing covenant language. It is often difficult to determine whether the issuer has discretion to increase leverage²¹ through various sale/leaseback carve-outs and whether fixed-asset reinvestment is mandated. It also eases the burden on investors by eliminating an additional covenant while retaining its restrictions.

Series Voting, Ongoing Reporting and Coupon Step-up Provisions

The Model Covenants' reporting and series voting provisions would appear to be a fair tradeoff for issuers' access to the capital markets. The Roundtable's voting provision for indenture amendments, by requiring majority consent by holders in principal amount of *each series* of bonds, would reduce issuer flexibility but is hard to challenge, given the sometimes conflicting interests among bondholders with differing terms and stated final maturities. With respect to reporting, ongoing disclosure by issuers that go private would increase compliance burdens but would clearly promote the premise of transparency underpinning the efficiency of the capital markets. In its extensive review of indentures, Moody's has found that ongoing disclosure is largely limited to high-yield issuance documentation.²² Finally, the Roundtable promotes its ratings-based coupon step-up provision as a compensatory generic "fix" to unpredictable event risks. It suggests that a broader range of step-ups is appropriate as the interest rate on the bonds declines down the rating spectrum to fully compensate investors, and that issuers assume to burden of replacing agencies.

Conclusion

Time will tell whether and to what extent the Model Covenants become a "market standard." The timing of the Roundtable's initiative is propitious. But whatever the outcome, Moody's believes that if all relevant market participants thereby gain a better understanding of covenant protections both before and during the bond marketing period, the Roundtable will have achieved one of its most important objectives.

²⁰ Moody's considers such transactions in general not to present significant risks to bondholders since they do not permanently remove core-revenue generating assets from the balance sheet or they help to finance new assets since the issue date of the bonds.

²¹ In making this observation we include both on-balance sheet "capitalized lease" obligations and off-balance sheet operating leases.

²² See Moody's Corporate Finance, "The Transatlantic Divide: Covenant Protection Varies Across Regions, Ratings," March 2008.

Credit Roundtable Adopts a Contract-Based Approach to Mitigating Event Risk

Moody's Related Research

Special Comments:

- The Transatlantic Divide: Covenant Protection Varies Across Regions, Ratings, March 2008 (107231)
- The Successor Obligor Clause in the Tyco Litigation: Are There Lessons in Bondholder Protection?, June 2007 (103695)
- Change of Control In European Baa-Rated Bonds: Increasingly Common, But Investor Protection Varies, April 2007 (102855)
- Moody's Approach to Evaluating Indenture Covenants and Assigning Covenant Quality Assessments, November 2006 (100768)
- Moody's Amplifies its Views on Indenture Protection Issues, January 1989

Analysis:

- BCE Inc. and Bell Canada, October 2007 (104780)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Credit Roundtable Adopts a Contract-Based Approach to Mitigating Event Risk

Report Number: 108526

Author

Alexander Dill

Production Specialist

Nita Desai

© Copyright 2008, Moody's Investors Service, Inc. and/or its licensors and affiliates including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved. **ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.** All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. **NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.** Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moody's.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."



Moody's Investors Service