Standards for Bond Communication _

incl. **Draft** of the Components of an Executive Summary provided by Bond Issuers to Investors in the Context of an Issue.

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DVFA

Society of Investment Professionals in Germany

Why Standards?

Corporate bonds rank among the best-performing asset classes, and it appears this trend will continue over the coming years. Viewed internationally, institutional portfolios carry relatively low proportions of equities (3-5%), with corporate bonds weighted more heavily.

In times of reduced access to lending by the banking system, many companies have (re)discovered bonds as a means of financing. Moreover, there have been increasing numbers of newcomers to the market, i.e. companies pursuing refinancing via the capital market for the first time.

Compared to equity investors, bond investors frequently have to endure lower quality investor relations. There are instances when the amount, relevance and timeliness of the information provided by the issuer utterly fail to meet investor expectations as to good bond communication. This applies to frequent borrowers and first-time issuers as well as issue-related communication and interim reporting.

Investor relations is a vital function for capital market-oriented companies. But the relevance of IR is not limited only to equity-related communication, or to listed issuers.

Frequent borrowers are generally international corporations that are listed on share indices. These corporates often conduct financial communication that is already oriented towards the requirements of the capital markets. In addition, these issuers are more frequently active in the European and American corporate bond markets. From the perspective of bondholders, steps are needed to correct / supplement the information provided.

Non-frequent borrowers may be listed or unlisted large caps, or mid caps. Looking at both groups, experience has shown that there is often no bond-oriented financial communication. This must be remedied.

The Bond Communication Working Group at DVFA e.V. has set out to raise awareness of the urgent need for improvements to the communication of bond issuers to bond investors and analysts. This is the impetus behind the standards, conceived as guidelines for investor-friendly bond communication. Bond communication by many German issuers is quite good. However, there is still much that companies can do to improve their investor relations with respect to bond issues.

If increasing numbers of medium-sized enterprises will be seeking funding via the bond market (and many indications point to this), then first-time issuers can use the standards to best utilise their chance to make a good first impression with bond investors.

Principles

1. Equal Treatment

Bond investors and bond analysts expect that bond issuers will treat them as equal to equity investors and analysts, and grant them equal access to information and to the management.

Bond investors, bond analysts and credit analysts are not always treated equally by bond issuers, or provided with the same quality and quantity of information as those on the equity side.

Despite a sometimes clearly higher level of investment, and therefore risk, compared to equity investors, it is not unusual for bond investors, for example, to receive financial data, corporate notifications or information on issues affecting the situation of the issuer at a different point than shareholders.

The management of the issuing entity is generally less accessible to bondholders than it is to equity investors and analysts.

A small number of bond issuers have specific contacts in their investor relations team for investors in the bonds of the company. For the most part, however, IR managers are not responsible for bondholders – or do not feel responsible. This is compounded by the fact that at many issuing companies, the people responsible for communication with rating agencies apparently are not sufficiently connected to the investor relations department, so that there is no functioning information flow within the company.

Leakage of information to the press or to individual investors is grossly unfair to bond investors and analysts, yet unfortunately not unusual.

Finally, it goes without saying that issuers should keep investors and analysts informed of upcoming capital market events via an event calendar on the company website and specifically invite bond investors to these. After all, the idea is Investor Relations.

2. Consideration of Specific Requirements

Bond investors expect bond issuers not only to acknowledge their specific information needs, but to serve these needs by providing resources, tools and reports.

Compliance and corporate governance regulations in Germany were in general predominantly conceptualised for equity investors. This means that information essential to bond investors is sometimes treated as less important in corporate reporting.

Among other things, this affects the tools and topics such as risk reporting, refinancing plans, interest income and pension liabilities, which are more important in relation to bonds than equities, given the consequences for the rating of the company and thus the bonds. Performance projections, communication of key strategic decisions and their influence on the financing structure must be reported promptly by bond issuers and in formats utilisable by bond investors.

Standardisation of key figures for the fixed income market is urgently necessary. A list of the primary bond-specific indicators that should be continually reported by issuing entities is contained in the appendix.

In addition to these, information about the corporate structure is necessary to allow identification of subordination risks of fixed income instruments and differentiate between the issuer rating and the rating of the issue.

Covenants relating to the bonds, such as change of control, restrictions on asset disposals, compliance with predefined debt ratios etc. are highly important beginning in the initial issue phase for evaluation of an instrument's rating and price. Covenant details must be presented transparently and comprehensively under a "bright-line rule", an unequivocal rule that does not permit any scope for interpretation.[1] Issuers should make reporting here event-driven.

Meeting the specific requirements of bond investors also creates particular investor relations challenges, such as knowledge about the instruments, financial market events (e.g. CDS) and the effects of changes in corporate structure on derivatives.[2]

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[1] Under US law, a bright-line rule is a clear, simple, and objective standard which can be applied to judge a situation. In other words, it is a judicial rule that helps to resolve ambiguous issues by setting a basic standard that clarifies the ambiguity and establishes a simple response.
Source: http://definitions.uslegal.com/b/bright-line-rule/ on 06 January 2011

[2] The DVFA Principles for Effective Financial Communication, published in 2005 and revised in 2008, already contain best practice standards that largely also apply to bond investors.

Principles

3. Dialogue with Bond Investors

Investors expect bond issuers to maintain a dialogue with them – not only at the time a bond is issued, but regularly – and that the management of the issuing entity is available to meet with bond investors.

Bond analysts and bond investors are only rarely invited to meetings with the capital market or corporate presentations by a small minority of issuers. This is true of company presentations and broker road shows, as well as one-on-one meetings or management presentations to institutional investors.

E.g. Companies listed on the Deutsche Börse AG Prime Standard are obliged to hold an “analyst presentation” at least once a year. The term is somewhat misleading: in the parlance of Deutsche Börse AG, it means holding a live event, which can be attended by both equity analysts and investors.

The Bond Communication Working Group proposes that bond issuers hold an event tailored to the requirements of bond investors at least once a year, to which bond investors and bond analysts are specifically invited and in which senior management personally participates.

In addition, from the perspective of bond investors it is necessary to be invited to participate in conference calls, meetings with investors throughout the year, roundtables, site visits and management visits to investment firms and brokers.

4. Issue Process

Investors expect bond issuers to orient the issue process on their requirements in terms of the time schedule and information provided.

The structure of the issue process itself also plays an important role. The issue process relates to requirements on content and timing. With regard to timing, relevant new information that may influence the rating and price in the issue phase must be communicated to bond investors during the issue process. The guiding principle for structuring issue processes in an investor-friendly way should be the information requirements of investors. These include, for example, information on circumstances, projects and business plans, which influence a company's financial and business profile (such as M&A projects or expectations of negative earnings figures). If the company has a public rating by an agency, the rating agency and issuer should avoid rating reviews during the issue phase taking into account expected rating changes of which the public is unaware. This means, any rating action that could have been taken prior to or during the issue process is to be avoided immediately afterward.

Information provided during the issue or published in road show materials should address issues relevant to bonds, including:

- Ownership structure
- Stability of cash flows
- Liquidity
- „Hidden Liabilities"
- Covenants.

Bond investors also expect information from frequent borrowers on any bond additions, as well as on process and timing.

In order to prevent arbitrage between different currency zones, documentation should always be identical in all currencies. It should always be possible and be a goal that new bonds and documentation contain better creditor covenants and are set out in more investor-friendly ways.

Bond investors also expect bond issuers to implement a lock-up period for further new issues, as is the case with equity issues. Particularly in difficult market phases, some issuers lure investors with unsustainable concessions, or spread rumours that this really is the last new issue for the year or for the foreseeable future. Investors also value it when companies make statements with respect to a rating commitment in the course of the issue, in particular which steps will be taken by the issuing entity to implement this commitment. Contractually secured coupon step-ups in the event of downgrades are helpful to reinforce the company's commitment and reduce losses to investors.

As to the practicalities of the issue process, the Bond Communication Working Group proposes the following: the book should be open for at least two hours. It should be ensured, as best possible, that the spread range remains constant - and never changes once the book has been closed.

Principles

5. Prospectus and Executive Summary

Investors must have earlier access to bond prospectuses, to which an executive summary should be added reciting the key aspects of the bond issue.

Prospectuses are often provided to investors too late. Bond prospectuses are also often too voluminous.

The Bond Communication Working Group recommends that issuing entities publish an executive summary of the full prospectus, with a maximum of 4-6 pages and made available at the latest at the time of book opening, ideally 3 hours before book opening. The executive summary provides key content from the full prospectus in brief form, yet identical to the full prospectus in terms of both quality and content.

The key content items for an investor-friendly executive summary are listed under item 2. Executive Summary.

1. Bond-specific indicators

A. Entry Level[1]

Entry level information represents the minimum that bond issuers, in particular companies issuing bonds for the first time, should provide to investors.

The figures required under the Entry and Prime Levels of the DVFA Standards for Bond Communication are based on conventional market standards and/or IFRS accounting standards. Further information is available to issuers from the sources cited. Please note that some of the figures require calculations for which issuers have discretion as to the items included and the methods by which the calculations are made. Thus, DVFA bears no responsibility for definitions derived from external sources or for the figures calculated by issuers on this basis. Our express recommendation for issuers is to subject their figures to review by an audit firm and/or the lead manager of the issue.

I) Debt service coverage[2]

- EBIT Interest Coverage (ratio of net earnings before interest and taxes to interest and similar expenditure)
  EBIT Int. = EBIT / interest and similar expenditure (incl. interest on finance / capital lease)
- EBITDA Interest Coverage (ratio of net earnings before interest, taxes, depreciation and amortisation of tangible and intangible fixed assets to interest and similar expenditure)
  EBITDA Int. = EBITDA / interest and similar expenditure (incl. interest on finance / capital lease)

Function of expense:	**Nature of expense:**
Revenue	**Revenue**
+ Other operating income	+ Net changes in inventory
- Historical cost	+ Own work capitalized cost
- Administrative expenses	+ Other operating income
- Marketing	- Material costs
- Other operating expenses	- Personnel expenses
- Other taxes	- Depreciation
+ Income from investments	- Other operating expenses
= EBIT	- Other taxes
+ Depreciation	+ Income from investments
= EBITDA	**= EBIT**
	+ Depreciation
	= EBITDA

1 Issuers listed in Deutsche Börse AG's Entry Standard for Bonds have a binding obligation to apply the Entry Level standards of the DVFA Standards for Bond Communication under the transparency requirements for their listing.

2 Source: Grundsätze für die Vergabe von Unternehmenskrediten durch Versicherungsgesellschaften – Schuldscheindarlehen –, 4th revised edition, December 2006, published by: Gesamtverband der Deutschen Versicherungswirtschaft e.V., Abteilung Kapitalanlagen, Berlin

Bond-specific indicators (cont.)

II) Debt[3]

- Total Debt / EBITDA (ratio of total liabilities to net earnings before interest, taxes, depreciation and amortisation of tangible and intangible fixed assets)
- Total Net Debt / EBITDA (ratio of net liabilities to net earnings before interest, taxes, depreciation and amortisation of tangible and intangible fixed assets)

Bonds, commercial paper, medium term notes
+ Liabilities to banks
+ Liabilities to affiliated companies (for financial liabilities)
+ Liabilities to associates (for financial liabilities)
+ Profit participation certificates (or mezzanine capital)
+ Subordinated loans, liabilities to companies
+ Other interest-bearing liabilities, finance leasing liabilities
= Total debt
- Liquidity
= Total net debt

III) Capital structure[4]

- Risk Bearing Capital (ratio of liability capital to modified total assets)
  Risk Bearing Capital = liability funds / modified total assets
- Total Debt / Capital (ratio of total financial liabilities to total financial liabilities plus equity)
  Total Debt / Capital = total financial liabilities / total financial liabilities + equity

Equity	**Total assets**
+ Shareholder loans (if subordinated)	- Treasury shares
+ Mezzanine capital	- Amounts due from / loans to shareholders
- Treasury shares	- Outstanding capital contributions on subscribed capital
- Amounts due from / loans to shareholders	- Pension provisions not carried as liabilities
- Outstanding capital contributions on subscribed capital	- Tax accruals and deferrals
- Pension provisions not carried as liabilities	**= mod. Total Assets**
- Tax accruals and deferrals	
= Liability Capital	

[3&4] Source: Grundsätze für die Vergabe von Unternehmenskrediten durch Versicherungsgesellschaften – Schuldscheindarlehen –, 4th revised edition, December 2006, published by: Gesamtverband der Deutschen Versicherungswirtschaft e.V., Abteilung Kapitalanlagen, Berlin

B. Prime Level[5]

For the Prime Level, the figures cited in section A. of the Entry Level standards are required, with the addition of the following figures. We recommend that issuers applying the Entry Level standards also voluntarily include the figures below.
The listed indicators provide an important informational foundation. As such, they are crucial for generating internal ratings for investors. Internal ratings are becoming increasingly important, in particular for medium-sized issuers, to render the attractiveness and/or risk of the investment transparent to bond investors.

- EBITDA (Earnings before interest, tax, depreciation and amortisation)
  see definition page 09, Standards for Bond Communication

- EBIT (Earnings before interest, tax)
  see definition page 09, Standards for Bond Communication

- Total revenues
  "Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants. [...]
  Revenue includes only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenue. Similarly, in an agency relationship, the gross inflows of economic benefits include amounts collected on behalf of the principal and which do not result in increases in equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of commission."[6]

- Total interest payments (Gross amount, not net interest!)
  “The sum of all interest payments to date or over the life of the loan.
  This is an incomplete measure of the cost of credit to the borrower because it does not include upfront cash payments, and it is not adjusted for the time value of money.”[7]

- Funds from operations (Net profit plus depreciation and amortisation plus deferred income tax)
  For real estate companies: Depending on the trading segment (i.e. small/mid-cap bonds), the figure can also be relevant for SPVs in the renewable energy sector.
  Funds From Operations is a “figure used by real estate investment trusts (REITs) to define the cash flow from their operations. It is calculated by adding depreciation and amortization expenses to earnings, and sometimes quoted on a per share basis.“[8]

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5 Issuers listed in Deutsche Börse AG’s Prime Standard for Bonds have a binding obligation to apply both the Entry Level and the Prime Level standards of the DVFA Standards for Bond Communication under the transparency requirements for their listing.

6 Source: IFRS 2011, WILEY-VCH Verlag GmbH & Co. KGaA, Weinheim, 5th Edition 2011, IAS 18, page 243
For further information, please have a look at the source, page 240 et seq.

7 Source: http://financial-dictionary.thefreedictionary.com/Total+Interest+Payments

8 Source: http://www.investopedia.com/terms/f/fundsfromoperation.asp#ixzz1d7uLYiZY

- Operating cash flow (Funds from operations plus change in working capital)
- Operating cash flow last 5 years

"Cash comprises cash on hand and demand deposits.
Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
Cash flows are inflows and outflows of cash and cash equivalents.
Operating activities are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.
Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.
[...]
Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity. Therefore, they generally result from the transactions and other events that enter into the determination of profit or loss. Examples of cash flows from operating activities are:

(a) cash receipts from the sale of goods and the rendering of services;
(b) cash receipts from royalties, fees, commissions and other revenue;
(c) cash payments to suppliers for goods and services;
(d) cash payments to and on behalf of employees;
(e) cash receipts and cash payments of an insurance entity for premiums and claims, annuities and other policy benefits;
(f) cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities; and
(g) cash receipts and payments from contracts held for dealing or trading purposes.

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in recognized profit or loss. The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale as described in paragraph 68A of IAS 16 Property, Plant and Equipment are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities."[9]

Further definition:
Earnings before interest and tax (EBIT)
+ Depreciation + amortization (EBITDA)
- Increase in working capital (accounts receivable + inventory – accounts payable)
- Interest/Tax
= Cash flows from operating activities (Operating activities CFFO)[10]

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9 Source: IFRS 2011, WILEY-VCH Verlag GmbH & Co. KGaA, Weinheim, 5th Edition 2011, IAS 7, page 94 et seq.
For further information, please have a look at the source, page 92 et seq.

10 Source: Ciaran Walsh, Key Management Ratios, Fourth revised edition 2008, PEARSON EDUCATION LIMITED, Harlow, page 335

- Capitalization (Short and long term borrowings plus shareholders equity)
  "Total capitalization refers to the long-term debt obligations of a company, and the equity on the company's balance sheet. Capital structure is another name used for total capitalization. A company uses total capitalization information for the balance sheet to make decisions on the company's ability to fund projects, expansions and product development."[11]

- Net debt (Short and long term interest bearing liabilities minus cash & cash equivalents)
  "A metric that shows a company's overall debt situation by netting the value of a company's liabilities and debts with its cash and other similar liquid assets.
  Calculated as:
  Net Debt = Short Term Debt + Long term Debt - Cash & Cash Equivalents[12]

- Free cash flow to Bondholder (Operating cash flow minus Capex minus Investments minus Acquisitions minus Dividends = Free cash flow)
  „Cash flow to bondholder is defined as the difference between the interest paid by the firm to the bondholders and net new borrowings."[13]

- Free cash flow (Operating cash flow minus capex minus dividends)
  "A measure of financial performance calculated as operating cash flow minus capital expenditures. Free cash flow (FCF) represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base. Free cash flow is important because it allows a company to pursue opportunities that enhance shareholder value. Without cash, it's tough to develop new products, make acquisitions, pay dividends and reduce debt."[14]

- Total debt (Short and long term interest bearing liabilities)
  see definition page 10, Standards for Bond Communication

- Total debt sorted by maturity, by subordination level, by instrument type
  see definition page 10, Standards for Bond Communication

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[11] Source: http://www.ehow.com/info_8311193_total-capitalization-definition.html#ixzz1edUqPNMr

[12] Source: http://www.investopedia.com/terms/n/netdebt.asp#ixzz1edd7NgOJ

[13] Source: http://www.istockanalyst.com/glossary/Cash_Flow_To_Bondholders

[14] Source: http://www.investopedia.com/terms/f/freecashflow.asp#ixzz1edenift0

- Off balance sheet exposures
  "Off-balance sheet: A term that refers to borrowing that does not appear on the balance sheet. Sometimes achieved by a finance lease that gives the lessee all the risks and rewards, but not hte legal status, of ownership."[15]

- Retained earnings
  "Retained earnings are the net income of a corporation which has been retained by the corporation rather than being distributed to shareholders as dividends. Retained earnings are used by the corporation to pay off debts or to provide funds to re-invest in the business. Retained earnings is shown on the balance sheet of a corporation in the owners equity section."[16]

- Funds from operations to total debt in percentage
  see definition page 11, Standards for Bond Communication

- Funds from operations to net debt in percentage
  see definition page 11, Standards for Bond Communication

c) Disclosure

In the case of adjustments, and recognition, for instance, of adjusted EBITDA or net debt, the calculation method and the individual adjustments must be disclosed and explained.

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15 Source: Ciaran Walsh, Key Management Ratios, Fourth revised edition 2008, PEARSON EDUCATION LIMITED, Harlow, page 385

16 Source: http://biztaxlaw.about.com/od/glossaryr/g/retainedearnings.htm

2. Executive Summary

Contents of executive summary

The executive summary should contain the following details (in bullet points):

1) Brief description of issuing entity

- Issuing entity
- Brief business description of all relevant segments
- Key data over the last five years
- Key ratios
- Key risk factors (operative, financial, regulatory)
- Purpose of bond
- M&A transactions during the last five years
- Financing structure
- Ownership structure
- Complete debt structure (sorted by maturity, by subordination level, by instrument type)

2) Bond features

- Currencies
- Maturities
- Coupon
- Type of bonds
- Listing of bonds
- Rating of bonds
- Involved banks

3) Creditor covenants

- Guarantees
- Collateral
- Restrictions
- Negative pledges
- Change of control? Make whole? What trigger?
- Put / call options
- Coupon step-up? Which extent? What trigger?
- Covenants

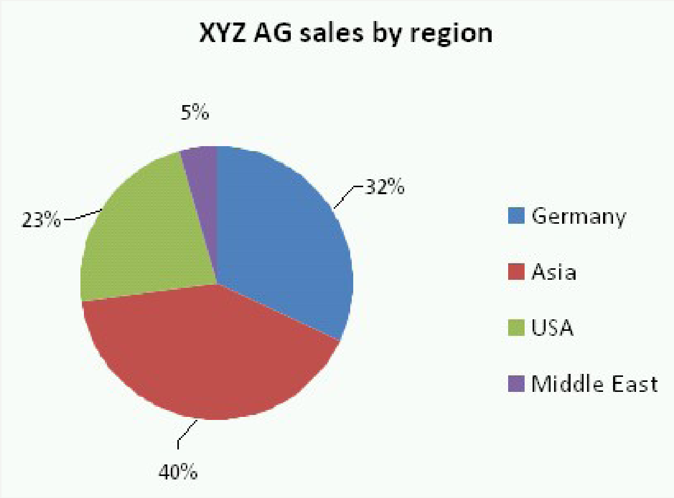
Executive Summary - Best Practice of Items and Presentation

Components of an Executive Summary provided by bond issuers to investors in the context of an issue

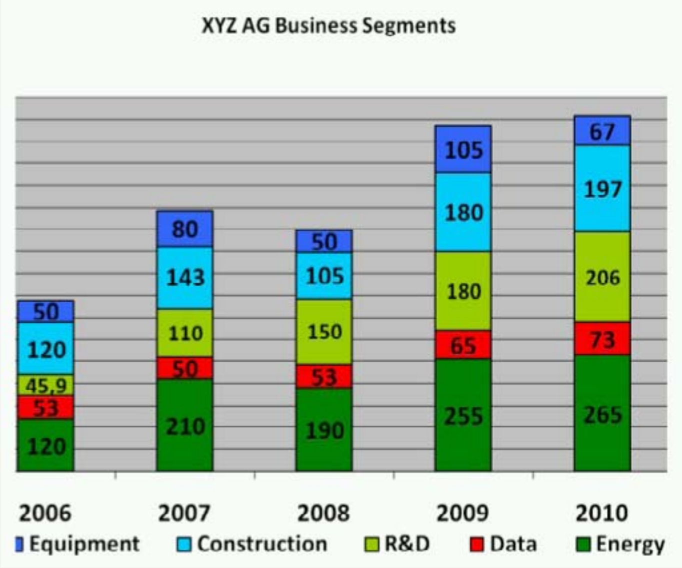
1) Brief description of issuing entity

1.1. Issuing Entity

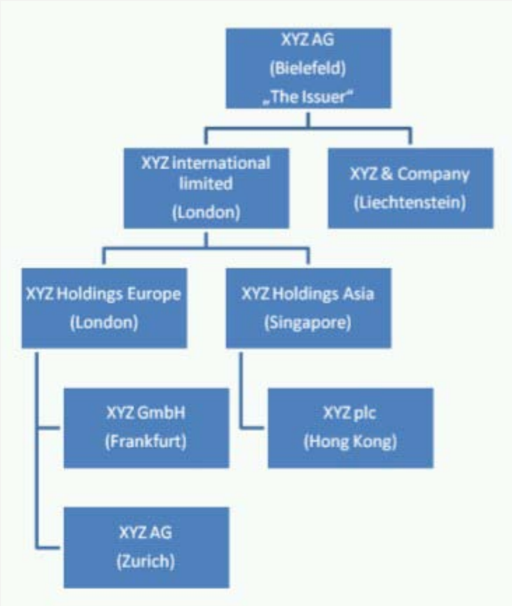
Example: XYZ AG is a producer of rubber boots headquartered in Bielefeld, Germany.



The following graphic provides an overview of current sales of XYZ AG products by region.



This example is meant to furnish key information about the individual business segments and their relative importance for the company. Ideally, the figures should cover a period of five years.



The present graphic provides a fictional example of the organisational form of a company. It illustrates which subsidiaries operate under the parent company, and their relative importance in the organisation. A graphic renders a concise overview of the company and its operating segments.

Moreover, information on potential guarantees and investment ties between operational and holding companies should be provided.

1.2. Brief business description of all relevant segments / Key data over the last five years / Key ratios

Key Indicator	Mio. Euro
EBIT	988,7
EBITDA	1.710,1
Total revenues	11.724,9
Total interest payments	12,5
Funds from operations	702,8
Operating cash flow	250,6
Operating cash flow last 5 years	1.205,4
Capitalization	5.734,15
Net debt	3.761,6
Free cash flow to Bondholder	150,1
Free cash flow	175,1
Total debt	3.761,6
Total debt sorted by maturity, by subordinated level, by instrument type	
Off balance sheet exposures	
Retained earnings	502,45
Total debt to EBITDA in times	3,5
Funds from operations to total debt in percentage	35%
Funds from operations to net debt in percentage	23,5%

1.3. Key risk factors (operative, financial, regulatory)

Risks can be classified in 2 categories: Non-financial and financial risks[17]

1.3.1. Non-financial risks

1.3.1.1. Business risk

As Jorion (1997) states, business risk is that which the company assumes in order to create competitive advantages and added value for its shareholders. It is therefore considered as an internal company skill employed to deal with the competitive environment in which it is located. Hence, this risk refers to the possible impact that the loss of these company competitive skills might have, with the consequent influence on the possible future loss of company wealth.

1.3.1.2. Strategic risk

This risk is associated with basic changes in the economy. The evolution of the economic environment generates a high level of uncertainty, which affects the performance of the company and consequently, the creation of wealth. In this way, any disturbance in the economic environment in which the companies are competing will affect them according to how sensitive a company is towards each of the factors that defines the environment.

Indicators the economic environment:
Gross domestic product, aggregate demand, inflation, interest rate, public deficit

1.3.2. Financial risks

1.3.2.1. Market risks

1.3.2.1.1. Exchange risk

That resulting from variations in exchange rates. Specifically, that resulting from a variation in the price of the means of payment. This is a basic risk for those companies which carry out operations in international markets with more than one currency.

1.3.2.1.2. Interest risk

This risk derives from variations in the interest rate, or, put another way, variations in the "price of money". A company is significantly exposed to this risk, according to the extent to which it carries out operations in financial markets, with fixed interest assets. Furthermore, interest risk in the company will also depend on its debt maturity date and indexation.

1.3.2.1.3. Risk of price variations in financial assets other than fixed income assets

This risk derives from the possibility of variations in the price of financial assets that are not fixed income assets (mainly stocks). The extent to which a company is exposed to this type of asset will depend on its activity in financial markets.

[17] "The disclosure of risk in financial statements" by J.David Cabedo, José Miguel Tirado (Accounting Forum 28 (2004) 181-200)

1.3.2.1.4. Risk of commodity price variations

From this risk, a loss occurs as a consequence of an unexpected variation in commodity prices. This is possibly the largest category of market risk, in that it affects all types of companies, regardless of their performance in financial markets and regardless of the transactions they carry out in various currencies. In fact, this type of market risk exists and is significant for both manufacturing companies and those only carrying out commercial activities. Unexpected variations in the market prices of both inputs and outputs of the production or commercial process of the company constitute the elements of market risk which have the greatest potentially significant impact on company net cash flows.

1.3.2.2. Credit risk

Credit risk can be defined as the possibility that over time, a decrease in the real value of a company's client portfolio may occur as a result of credit quality deterioration suffered by those making up the portfolio. A particular case of credit risk is that known as insolvency risk, which is linked to the possibility that this credit quality deterioration in the portfolio would be so great as to suppose a high probability of the company credit balance being definitively irrecoverable.

1.3.2.3. Operational risk

Operational risks, i.e., those deriving from errors or failings in established procedures, are often difficult to disentangle from the so-called legal risks, since they frequently have legal consequences. For this reason, when dealing with the issue of quantifying operational risk, a generic perspective should be taken, in such a way that the quantification models consider together both operational risks in the strict sense and legal risks. Thus, a broad definition of operational risk which also covers legal risk is that which defines it as the risk of direct or indirect losses resulting from internal process errors, personnel or systems errors, or from external factors.

Examples:

- The agreement between a bottling company and its far and away largest client is set to expire in 2014; if it is not extended by the client, the business model collapses
- A rapid exit from nuclear energy, as promised by the current agreement with the German federal government; potential for inadequate legal certainty resulting from Fukushima accident; ➔ How has the company reacted thus far, e.g. what litigation is pending, what further steps are expected (Important: Worst case with associated projections – How high is the potential proportion of affected revenue?)
- Danger of numerous patent expirations over the coming two years: Within two years, 35% of revenue will be affected by expiring patents (especially relevant in the pharmaceutical industry)
- Low customer-base diversification: e.g. the top 5 customers account for 30% of revenue
- Political unrest in countries where the company generates significant proportions of revenue, e.g. ENI, OMV, Repsol ➔ Libya, BG Energy ➔ Egypt
- The oil price comprises 20% of the total input cost for a company's raw materials; in the event of a rise in the price of oil, costs can only be partially passed on to customers and/or only after a certain time delay
- Changes to legal frameworks (e.g. Basel III, Solvency II), as a result of which the impact on the issuers business model should be specified
- Threat of cuts to subsidies that represent a central element of the business model (e.g. solar energy industry)
- Substantially stricter regulation that are disadvantageous to the industry in question (e.g. financial industry)
- Expectations of significantly tighter environmental protection requirements (e.g. automobile industry)

1.4. Purpose of bond

A reference to the "company mission" is not enough information for investors.
The purpose of the bond issue should be explained in as much detail as possible.

Examples:
- Construction of an additional runway (Fraport 2009)
- Refinancing of expiring debt

1.5. M&A transactions during the last five years

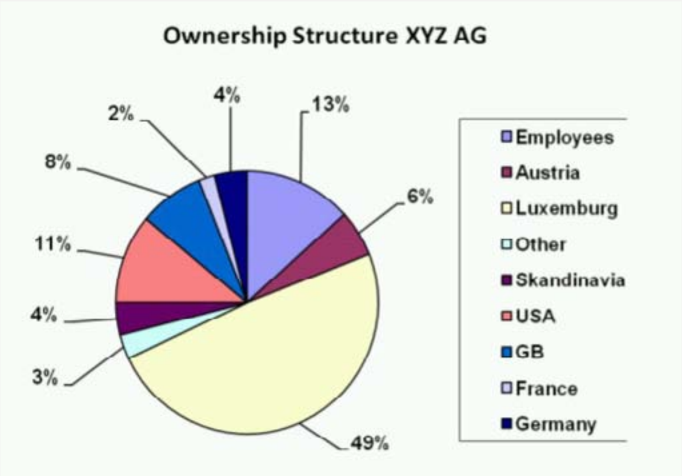
Examples:
2007: Issuer acquires Company A for EUR 3.6 billion
2005: Issuer acquires 50% stake + 1 share in Company B.

1.6. Financing structure

Summary of ratio between equity and debt, and breakdown of debt in loans and bonds outstanding
Figures on ratio of debt to equity: e.g. gearing etc.

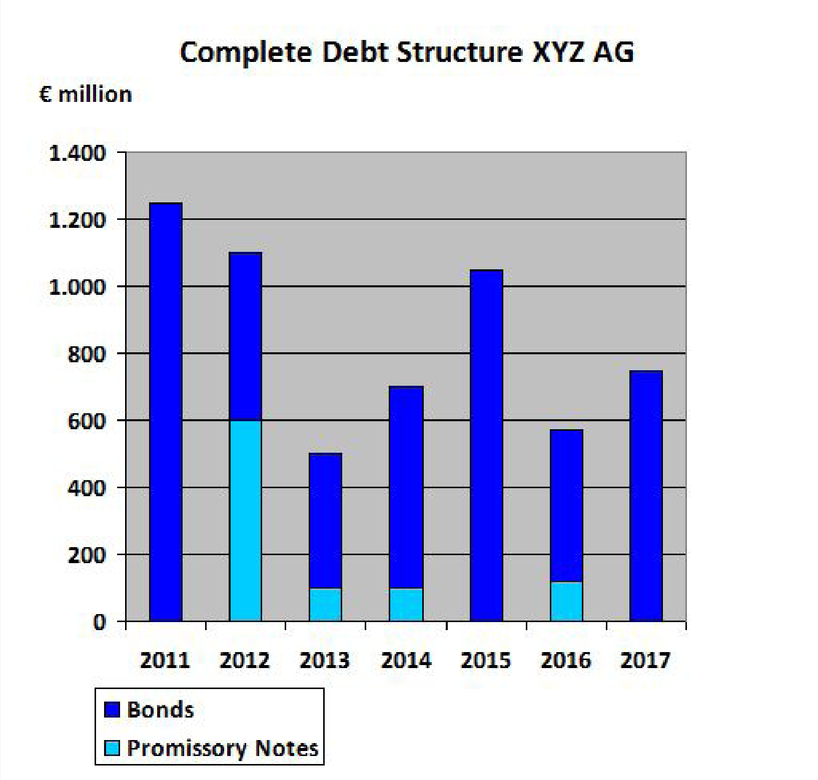
1.7. Ownership structure

XYZ AG Annual Report 2009/10:
Largest single shareholder
XY Bank Invest GmbH & Co OG > 15 %
Employee participation private foundation 13.3 %
AB bank AG > 5 %



1.8. Complete debt structure sorted by maturity, by subordination level, by instrument type

Example:



Issued	Maturity	Nominal Outstanding (€)	Currency	Coupon
26/05/2004	26/05/2011	750,000,000	EUR	4.63%
24/06/2009	24/06/2011	350,000,000	EUR	3.63%
29/05/2007	29/05/2012	500,000,000	EUR	4.75%
23/07/2009	23/07/2012	23,800,000	RON	11.55%
28/11/2008	28/11/2013	500,000,000	EUR	9.38%
14/07/2009	14/07/2014	600,000,000	EUR	5.75%
05/03/2009	05/03/2015	1,000,000,000	EUR	7.63%
22/02/2010	22/02/2017	750,000,000	EUR	4.25%

2. Bond features

2.1. Currencies / Maturities / Coupon / Type of bonds / Listing of bonds / Rating of bonds

Example:
Bond 2011

Type of issue	Corporate bond
Issue volume	EUR 500,000,000.–
Denomination	EUR 1,000.–
Coupon	4.75% p.a.
Maturity	05 February 2018
Redemption	100%
Listing date	Traded in regulated unofficial market of Exchange XYZ as of 03 February 2011
ISIN	(ISIN) XYZ0000A0MS00

2.2. Involved banks

Example:
XY Group Bank International AG
YZ AG Sparkasse
ZZ Landesbank AG
YY Volksbank AG
etc.

3. Creditor covenants

3.1. Collateral

Example:
Events of default include default of the issuer or any material subsidiary subject to a EUR5m carve-out (*EUR25m for the 2030 bond).
A material subsidiary is a subsidiary accounting for at least 10% or more of consolidated profit before tax and extraordinary items or consolidated net assets in any of the three most recent audited accounts, or a subsidiary which has outstanding debt managed by the same trustee. A report by the auditors that, in their opinion, a subsidiary is or is not material is binding on all parties.

3.2. Restrictions
n.a.

3.3. Negative pledges

Example:
Negative pledge covers the obligations of the issuer and its subsidiaries. An obligation is defined as indebtedness represented by notes, bonds and debentures, which are listed at the request of the issuer or its subsidiaries.
This definition excludes secured listed loans denominated in sterling and initially primarily distributed to investors in the UK.

3.4. Change of control? Make whole? What trigger?

Example:
A change of control (CoC) call event is defined as a CoC (defined as any person(s) acting in concert to acquire 50% of the issuer's share capital or voting rights) and a consequent 1) downgrade to Ba1/BB+ or below by Moody’s or S&P, or 2) withdrawal of the corporate family rating/corporate credit rating.
If this occurs before 31 March 2006, the issuer may call the bonds at the price at which the bond’s yield to call is equal to bunds + 75bp; if this occurs after, the issue may call the bonds at par.
If the issuer opts not to call the bonds, then there is a coupon.

3.5. Put/Call options

Example:
Call:
Call at nominal amount multiplied by the RPI ratio plus the excess over the price at which the gross real rate of return on the notes equals the gross real rate of return on the reference gilt. Call for indexation reasons.
Reference gilts are: for 2016 bond – Index-linked Gilt 2.5% July 2016; for 2025 bond – Index-linked Gilt 2.5% July 2024; for 2036 bond – Index-linked Gilt 2.0% January 2035.
Put:
If a restructuring event occurs and within 90 days of the announcement a negative rating event or a rating downgrade happens as a result, the bonds become puttable at a price equal to the nominal amount multiplied by the RPI ratio.
A restructuring event is defined as a change of control on: (a) at least 50% of the outstanding capital; or (b) a number of shares that represent more than 50% of the voting rights of the issuer. A negative rating event is defined as the failure by the issuer to seek a rating or to obtain an investment grade rating.
A rating downgrade means a rating withdrawal or a downgrade to below investment grade by Moody’s, S&P or Fitch

3.6. Coupon step up? Which extent? What trigger?

Example:
Events of default include cross default of the issuer or any material subsidiary subject to a carve-out of EUR50m.
The coupon steps up by 125bp in the event of a rating downgrade to non investment grade or if the rating is withdrawn by S&P. Subsequently, the coupon steps down by 125bp in the event of a rating upgrade by S&P to at least Baa3/BBB-.

3.7. Covenants

Example:
Restriction on sales and lease back transactions covers contracts of 48 months and longer. Sale-and-lease back transactions are permitted if the proceeds from these contracts are at least equal to the sum of all costs incurred in acquiring the property subject to the transaction.

Add-on:
Additionally, collateral against senior secured debt should be listed: particularly Pfandbrief cover pools, assets pledged as security for project finance; "whole business securitisation"/"Ring fence".

Members

Prof. Dr. Alexander Bassen, Universität Hamburg, Hamburg

Prof. Dr. Wolfgang Blättchen, BLÄTTCHEN FINANCIAL ADVISORY GmbH, Leonberg

Uwe Burkert, LBBW - Landesbank Baden-Württemberg, Stuttgart

Monica Fernandez, CEFA, DZ BANK AG, Frankfurt

Thomas Hövelmann, CCrA, Helaba - Landesbank Hessen-Thüringen, Frankfurt

Frank Hussing, CEFA, Commerzbank AG, Frankfurt

Christoph Klein, CEFA, CFA, Chairman, DB Advisors, Frankfurt

Dr. Veronika Richter, CEFA, CCrA, ERSTE-SPARINVEST KAG & ÖVFA, Wien

Michael Schiller, CEFA, CFA, Union Investment, Frankfurt

Dr. Markus Walchshofer, Chairman, Fresenius SE & Co. KGaA, Bad Homburg v.d.H.

Further Publications

Guideline Analyst Presentation 1.0

DVFA and PwC present a guideline for analyst presentations

This guide is dealing with an important instrument in company-to-investor-communications: the so-called analyst presentation. Despite the omnipresence of analyst presentations in professional Investor Relations (IR) – in fact, the vast majority of stocklisted companies in all capital markets discloses corporate performance data in the format of a deck of slides in Microsoft Powerpoint® format or as a PDF – very little attention has been given by academics, standard setters, regulators and the investment community to the instrument *per se*.

DVFA GmbH (DVFA), the operational division of the German Society of Investment Professionals, and PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft (PwC) have teamed up to compile this guide. DVFA organises more than 200 analyst presentations of German stock-listed companies p.a. and for years have worked on improving standards of investor-aimed financial communication. PwC's specialists have a well-known experience and competence gained through the long standing audit of public companies and developed from that an expertise in the fields of in financial reporting and IR. DVFA and PwC for years have shown an exceptional cooperation in sustainability issues and have jointly established the German section of CRUF, the Corporate Reporting Users' Forum.

We seek to explore and describe quality and success criteria for analyst presentations well knowing that this is only a first step in seeking to standardise the structure of an instrument the importance of which, so far, has been neglected.

Authors:
Oliver Madsen, PwC; Tobias Bischoff, PwC; Ralf Frank, DVFA

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Obtainable from: http://www.dvfa.de /guideline_ap

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Autors:
DVFA Commission Non-Financials & EFFAS Commission on ESG

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DVFA e.V.
Mainzer Landstraße 47a
DE-60329 Frankfurt am Main
Tel.: +49 (0) 69 - 26 48 48 0
Fax: +49 (0) 69 - 26 48 48 489
Mail: info@dvfa.de
Web: www.dvfa.de

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