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RE: Cash flow disclosure related to SARS-CoV-2 impact – “EBITDAC”

Dear Sir or Madam:

Credit Roundtable^[1] members promote the production of accurate, consistent and timely financial information in order for investors to assess an issuer's operating performance and prospects to support the effective allocation of capital. With the pandemic and subsequent economic contraction causing material financial implications for corporations worldwide, reliable disclosures of material financial statement information are critical to efficient markets. While we understand that this disruption is causing significant challenges for borrowers, and we support financial market innovation when it leads to market efficiency, we are concerned that recent examples of highly subjective reporting that attempts to show normalized results during economically volatile times will result in an unreliable basis for investment.

A conventional financial measurement that governs the amount of debt a borrower can incur, among other things, generally incorporates a cash flow measurement based on earnings before interest, tax, depreciation and amortization or “EBITDA”. Unfortunately, over the last few years



management's definition of EBITDA, and the resulting financial measurement, has become distorted via numerous exclusions and add-backs. This results in divergent statements of cash flow available to service debt, complicates covenant calculations, and makes it difficult to compare and price a company's financial strength vis-a-vis its peers. This has troubling implications, for if a company's EBITDA calculation is elevated artificially, this can distort judgments of creditworthiness while also potentially giving borrowers greater flexibility to incur additional debt (among other things) without the acknowledgment or approval of creditors.

Recently, certain industry groups and regulators[2] have highlighted modifications to traditional EBITDA calculations that allow management to add back losses relating to the economic disruption caused by the COVID-19 government-enforced lockdowns. This has become known as "EBITDAC" with the "C" representing the financial consequences of the coronavirus pandemic. We believe EBITDAC calculations include many hypothetical, highly subjective, and potentially misleading adjustments.

The CRT joins other industry groups that are critical of EBITDAC. The use of EBITDAC compromises a fundamental assessment of a company's ability to incur and service debt to the detriment of current and future providers of capital. As the CRT has noted in our Covenant White Paper, which reflects our efforts at standardizing covenants[3], it is important for investors to have access to clear, complete, and consistent disclosures, particularly when it comes to non-GAAP measures. We welcome the opportunity to discuss our concerns, opinions and recommendations regarding EBITDAC in greater detail. Further, we call on regulators and auditors to carefully scrutinize the use of EBITDAC, and on market participants to adopt consistent standards related to the calculation of EBITDA.

Please direct any questions to Kelly Byrne Skarupa of The Credit Roundtable at kbyrne@taminc.com or (914) 332-0042.

Sincerely,

The Credit Roundtable

[1] Formed in 2007, The Credit Roundtable ("CRT") is a group of large institutional fixed income managers including investment advisors, insurance companies, pension funds, and mutual fund firms, responsible for investing more than \$4 trillion of assets. The Credit Roundtable advocates for creditor rights through education and outreach and works to improve fixed income corporate actions, ineffective covenants, and the underwriting and distribution of corporate debt. Its mission is to improve risk assessment and management through education and seeks to benefit all bond market participants through increasing transparency, market efficiency and liquidity.

[2] Including ELFA, IOSCO, European Securities and Markets Authority, The Financial Reporting Council, Moody's Investors Service and FitchRatings.,

[3] CRT Covenant White Paper and related material - https://cdn.ymaws.com/thecreditroundtable.org/resource/collection/003C92A4-87FF-4401-A9F3-96E5C704F962/CovenantWhitePaper_Covenant_White_Paper_revis.pdf
https://cdn.ymaws.com/thecreditroundtable.org/resource/collection/003C92A4-87FF-4401-A9F3-96E5C704F962/CovenantWhitePaper_Top_10_Questions_to_Ask_fo.pdf