



**INTERNATIONAL SECURITIES ASSOCIATION FOR INSTITUTIONAL TRADE COMMUNICATION  
INTERNATIONAL OPERATIONS ASSOCIATION**

**Bank Loan Trading  
Business Case for Market Practice Guideline  
*Presented by the United States Settlements/Cash/Treasury Working Group***

**Version 1.5 - Final**

**DISCLAIMER**

This market practice document has been developed by the International Securities Association for Institutional Trade Communication (ISITC) as a statement of professional practices recommended by ISITC. Institutions providing the information recommended in this document will benefit from the efficiencies inherent in a more automated transaction process. Although all institutions are encouraged to act consistently with this document, none are required to do so, and a failure to do so is not, in and of itself, evidence of negligent or inappropriate conduct.

Document Revision History

Version Number	Date	Who	Description
1.0	05/25/2005	Gage Gorman	Initial Draft for Market Practice requirements for the US markets.
1.1	07/21/2005	Jason Brasile	Updated feedback/comments
1.2	03/22/2006	Jason Brasile	Updates based on conference call held to review document. Format Specification and sample added.
1.3	05/10/06	Jason Brasile	Updates based on conference call held with final trade instruction format specification added.
1.4	05/25/06	Jason Brasile	Update to document based on conference call held <ol style="list-style-type: none"> <li>1. Initial Trade notification should be for accounting purposes only. Therefore, the instruction will contain the SETR//RPTO indicator.</li> <li>2. Update to Bank Loan Processing and Documentation Timeline section to highlight the initial trade is for reporting only, and the final trade details may still require the fax of the funding memo for compliance reasons. To be determined based on conversations between IM and custodian.</li> <li>3. Final trade notification should contain the SETR//TRAD to differentiate from the pre-trade instruction.</li> </ol>
1.5	08/23/06	Jason Brasile	Update to document based on conference call held 8-23-06 <ol style="list-style-type: none"> <li>1. Addition of comments in 35B of initial and final trade message explaining the issuer id can be a Deal, Tranche or Security Cusip</li> <li>2. Note in 19A::SETT field of final trade instruction explaining the breakdown of fees (i.e. assignment fees, delayed compensation, economic benefit of paydown, etc) will be provided in the funding memo faxed by the IM to the custodian via pdf. File and not through the swift message. (P.5 under funding memo data elements)</li> <li>3. Open question regarding additional payee name within wire instructions on final trade instruction stated within Cash Party Sequence.</li> <li>4. Discussions on-going with AMF and LSTA working groups to involve agent bank and broker firms to understand the breakdown of sub-loan payments and issues caused by delay in final loan details beyond the 60 day limit of ticket on Bloomberg. Comments listed in introductory section of document.</li> </ol>

## **Introduction and Scope**

This document provides a business case for identifying current market practice relating to bank loan instructions from Portfolio Managers to Custodian Banks in US markets and global markets where the recipient is a US Corporate.

The document will address and discuss the current notification process, problems with this processes, and suggestions for improvements and standardization.

Currently, there is an on-going effort to standardize the asset identifier of bank loans with cusips. There is still in it's infancy and large portion of these securities have not been identified with standardized ID's. This is a potential obstacle in automating the delivery and receipt of these type of transactions. The goal of this document is to outline the process and necessary data elements.

## **Types of Bank Loans**

There are two main facilities:

**Revolving Credit Line ("Revolver")** allows borrowers to draw down, repay, and re-borrow. The facility acts much like a corporate credit card, except that borrowers are charged an annual commitment fee on unused amounts regardless of usage, which drives up the overall cost of borrowing (the facility fee).

**A Term Loan ("TL")** is an installment loan. The borrower may draw upon the loan during a short commitment period and repay based on either a scheduled series of repayments or a one-time lump-sum payment at maturity.

### **Parties to the deal:**

In the primary market, the original facility is a contract between the borrower and either a single entity that originates the deal or a loan syndicate. There is default risk associated with the borrower.

In the secondary market, deals can be distributed among multiple investors through a transfer involving assignment or participation. With assignment, the new investor becomes the lender of record, which typically requires borrower consent. Loan participation involves an agreement with the existing lender rather than the borrower. The lender remains lender of record and the agreement is done generally without the borrower's knowledge or consent. To the risk of borrower default, participation adds the risk of default by the lender.

### **Loans:**

Since these are contracts rather than publicly traded securities, loan details can vary. Accelerated growth in the secondary market and market institutions has promoted standardization of loan contracts.

### **"Sub-Loans":**

For purposes only of calculating interest, loans may divide into multiple components that require distinct, simultaneous income calculations. This occurs in two general variations.

In the first, multiple income payments, each based on the total loan amount, accrue concurrently. Generally seen with mezzanine loans in Europe, borrowers may elect to defer a payment to a later date, at which time the payment will be capitalized (become a PIK rather than cash payment). Since the deferral extends payment past one or more subsequent coupon payment dates, what results are two payments accruing during one or more periods.

In the second, seen in the U.S. market, a borrower may have the option to convert portions of a loan to a different accrual method with different base rates and spreads. Typically, this involves conversions between Prime rate loans and loans based on LIBOR. The result is similar to the first variety, except that for accrual calculations the total loan amount is divided between the accruals.

*Discussions on-going with AMF and LSTA working groups to involve agent bank and broker firms to understand the breakdown of sub-loan payments and issues caused by delay in final loan details beyond the 60 day limit of ticket on Bloomberg.*

## **Process**

Typically term loans are fully drawn at closing and have scheduled principal and amortization schedules. Most loans are pre-payable at any time without any cost to the borrowers. Some term loans are structured more like bonds and have pre-payment penalties and minimal paydowns until maturity. Agreements may give the lender the right to refuse prepayments.

In a revolver, payments made by the borrower replenish the uncommitted balance. The credit agreement specifies a schedule for repayment of principle, and may include provisions for fees to be paid if the borrower is late with a payment.

Bank Debt can be also traded as Par or Distressed. A Par trade is generally priced above 90 cents on the dollar with a Distressed trade being below 90 cents on the dollar. Per LSTA (Loan Syndications and Trading Association) guidelines, Par trades should settle within T+ 7 days, while Distressed trades should settle T+20 days, but they may and often do settle beyond these timeframes. Distressed documents are reviewed by outside counsel prior to settlement.

Bank Debt settlement is effective when an Assignment Agreement is executed by both the Purchaser and Seller, Administrative Agent Bank has approved, and funds have been wired to the Seller. The Assignment Agreement is a transfer of ownership document created at the time the Credit Agreement is effective. The Administrative Agent Bank is responsible for tracking positions and making interest/fee payments to the Lender of record in the Bank Debt Group. The Administrative Agent receives a nominal fee for each Assignment Agreement executed per the Credit Agreement.

All interest and commitment, facility and letter of credit and other similar ordinary course fees are based on contractual rates, as set forth in the Credit Agreement. The contractual basis could be daily and set at prime or for a specified period as allowed in the Credit Agreement, generally, one, two, three or six month periods set at LIBOR + a spread. A LIBOR contract would accrue interest at the LIBOR base rate plus the spread stated in the Credit Agreement. The applicable spread is often tied to a leverage grid or other financial ratio matrix, and varies. Borrowers need to provide on-going representation (usually quarterly) of compliance with the Credit Agreement covenants.

As with other floating rate securities, rates are reset periodically. Unlike other floaters, a loan reset may involve a change in form rather than just a change in index value. Income may be capitalized, reducing or eliminating cash payments.

## **Bank Loan Processing Documentation and Timeline**

### **Document: Confirmation**

Estimated Timeline: Trade Date or Trade Date plus one

To initiate a loan transaction the portfolio manager communicates the pre-Trade Ticket and Credit Agreement as well as the appropriate Transfer documents. This detail is used by custodians for accounting purposes only as no settlement of cash is instructed.

After receipt of Credit Agreement, Due Diligence Checklist, relevant Transfer Documents and Facility Agent Notices, IM verifies that the terms within the Credit Agreement/pre-trade ticket and transfer documents reconcile. Upon verification of the deal documents, IM sends to both portfolio manager and Seller/Agent the Transfer documents for signature. Only after IM receives all signed documents does a final trade ticket get sent. Once IM creates the final trade ticket, the completion of the deal is finalized and all signed documents are sent to the trustee and legal advisers. Currently, IMs would be required to manually enter the final trade details (cash settlement instructions, accrual and assignment fee information). The intent of this document is to highlight how the final trade details should be populated on the MT54x message if used in place of the funding memo. The decision to send the additional fax of the funding memo to the custodian for compliance reasons should be determined based on SLA.

### **Daily Administrations of Loans:**

IM receives a daily cash flow statement from the trustee. IM reconciles the trustee daily cashflow statement to the forecasted cashflow. Any exceptions are researched to resolve prior to calculating the interest accruals for the cashflow statement. This cashflow statement is then forwarded to portfolio management. Daily loan activity is sent to IM via trustee and/or facility agent.

**Monthly Administration of Loans:**

On a monthly basis IM prices each loan as received from a variety of vendors and are applied.

At the end of each month, the designated trustee sends IM a month end cash flow statement. Monthly cash flow exceptions are handled in the same manner as the daily exceptions. In addition to reconciling the month end cash flow report, the calculating of the commitment amounts of the loan purchases is completed. Proposed / suggested message formats for key information provision:

It should be noted there are two key dates for message communication and the following message types are proposed for key workflow:

**Initial Trade Instruction to Custodian Bank (Pre-Trade)**

Trade date / +1

Information needed:

Broker, Security Identifier, Description of Loan, Price, Par Amount, Principal, Custodian account number, Trade Date, and Settle Date.

Suggested Message:

MT 54x Trade instruction to custodian bank

**Bank Loan Final Trade**

Trade Date / + up to 10

Information needed:

Trade Details, Effective Date/Actual Settlement, Net Money, and Wire Instructions.

Suggested Message:

MT54x – Trade settlement to Custodian Bank with Cash Party Sequence

**Additional Funding Memo Data Elements not captured on Swift:**

1. Breakdown of fees associated with Net cash settlement amount
  - a. Assignment Fees
  - b. Delayed Compensation
  - c. Economic Benefit of Paydown
2. Loans outstanding under facility as of effective date
3. Accrual information (ie. How to setup the accrual on that par/one accrual for total or multiple accruals for total and the corresponding short term maturity dates for each accrual)

## Initial Trade Instruction - Settlement Message Specifics

### Sequence A – General Information

Tag:	20C	Transaction Reference Number	Mandatory
Best Practice:	ISITC-IOA conforms to SWIFT tag use rule. :20C::SEME//		

Tag:	23G	Function of the Message	Mandatory
Best Practice:	ISITC-IOA conforms to SWIFT tag use rule. :23G:NEWM or :23G:CANC		

### Sequence A1 – Linkages

Tag:	20C	Transaction Reference Number	Conditional
Best Practice:	ISITC-IOA conforms to SWIFT tag use rule. :20C::PREV//  Used on Cancels to indicate trade being cancelled.		

### Sequence B – Trade Details

Tag:	98A	Settlement Date	Mandatory
Best Practice:	ISITC-IOA Conforms to SWIFT tag use rule.		

Tag:	98A	Trade Date	Mandatory
Best Practice:	ISITC-IOA Conforms to SWIFT tag use rule.		

Tag:	90A	Deal Price	Mandatory
Best Practice:	Reflected as a percentage of Par. DEAL/PRCT		

Tag:	35B	Identification of the Financial Instrument	Mandatory
Best Practice:	/US/ Cusip – If available /XX/ Dummy Sec. ID Currently, there is an on-going effort to standardize the asset identifier of bank loans with cusips. There is still in it's infancy and large portion of these securities have not been identified with standardized ID's and should otherwise be populated with a dummy security identifier using the /XX/ type. The Issuer ID identified with a dummy Sec. ID can be a Deal ID or Tranche ID		

### Sub-Sequence B1 – Financial Instrument Attributes

Tag:	12A	Classification Type	Mandatory
Best Practice:	Use of ISITC Data Source Scheme is required. CLAS/ISIT/ <b>BKL</b> **New ISITC Financial Type needs to added to list.		

Tag:	11A	Currency of Denomination	Conditional
Best Practice:	ISITC-IOA conforms to SWIFT tag use rule. DENO//  Required if industry standard cusip not provided.		

Tag:	98A	Maturity Date	Conditional
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Best Practice:	ISITC-IOA conforms to SWIFT tag use rule. MATU//
	Required if industry standard cusip not provided.

Tag:	98A	Issue Date	Conditional
Best Practice:	ISITC-IOA conforms to SWIFT tag use rule. ISSU//		
	Required if industry standard cusip not provided.		

Tag:	92A	Interest Rate	Conditional
Best Practice:	ISITC-IOA conforms to SWIFT tag use rule. INTR//		
	Required if industry standard cusip not provided.		

**Sequence C – Financial Instrument Account**

Tag:	36B	Quantity of Financial Instrument to be Settled	Mandatory
Best Practice:	The number of contracts reflected as the face amount of the principal of the debt instrument SETT//FAMT		

Tag:	97A	Account	Mandatory
Best Practice:	ISITC-IOA Conforms to SWIFT tag use rule. SAFE//		

**Sequence E – Settlement Details**

Tag:	22F	Indicator	Mandatory
Best Practice:	The Initial-Trade instruction is required for accounting purposes only. To allow the instruction to be routed properly by custodians, the reporting indicator should be populated. <b>SETR/RPTO</b>		

**Sub-Sequence E1 – Settlement Parties**

Tag:	95C	Settlement Party	Mandatory
Best Practice:	PSET//US		

Tag:	95R	Settlement Party (Buyer/Seller)	Mandatory
Best Practice:	DTCYID Preferred, BIC or Name Address if not available. 95R::BUYR/DTCYID/<DTC ID> or 95R::SELL/DTCYID/<DTC ID> 95P::BUYR//<BIC Code> or 95P::SELL//<BIC Code>  95Q::BUYR//Name Address or 95Q::SELL//Name Address		

Tag:	95R	Settlement Party (Delivering/Receiving Agent)	Mandatory
Best Practice:	DTCYID Preferred, BIC, or Name/Address if not available. 95R::DEAG/DTCYID/<DTC ID> or 95R::REAG/DTCYID/<DTCID>  95P::DEAG//BIC Code or 95P::REAG//BIC Code  95Q::DEAG//Name Address or 95Q::REAG//Name Address		

**Sequence E3 – Amounts**

Tag:	19A	Deal Amount	Optional
Best Practice:	ISITC-IOA conforms to SWIFT tag use rule. DEAL//		

Tag:	19A	Commission, Fees, Charges, Accrual	Optional
Best Practice:	As required only. ISITC-IOA conforms to SWIFT tag use rule. EXEC// (for commissions)		

Tag:	19A	Settlement Amount	Mandatory
Best Practice:	ISITC-IOA conforms to SWIFT tag use rule. SETT//		

Bank Loan sample – Initial Trade

:16R:GENL  
:20C::SEME//620099990026642  
:23G:NEWM  
:16S:GENL  
:16R:TRADDET  
:98A::SETT//20060301  
:98A::TRAD//20060213  
:90A::DEAL//PRCT/100,  
:35B:/XX/5000009B2  
KOCH FOREST PRODUCTS INC TERM B  
:16R:FIA  
:12A::CLAS/ISIT/BKL  
:11A::DENO//USD  
:98A::MATU//20121220  
:98A::ISSU//20060213  
:92A::INTR//5,  
:16S:FIA  
:16S:TRADDET  
:16R:FIAC  
:36B::SETT//FAMT/3250000,  
:97A::SAFE//9999  
:16S:FIAC  
:16R:SETDET  
:22F::SETR//RPTO  
:16R:SETPRTY  
:95C::PSET//US  
:16S:SETPRTY  
:16R:SETPRTY  
:95R::DEAG/DTCYID/00123  
:16S:SETPRTY  
:16R:SETPRTY  
:95R::SELL/DTCYID/00274  
:16S:SETPRTY  
:16R:AMT  
:19A::DEAL//USD3250000,  
:16S:AMT  
:16R:AMT  
:19A::SETT//USD3250000,  
:16S:AMT  
:16S:SETDET  
-}

## Final Trade Instruction - Settlement Message Specifics

All field recommendations for the final trade instruction will be consistent with the initial trade detail except where highlighted below:

### Sequence A – General Information

Tag:	20C	Transaction Reference Number	Mandatory
Best Practice:	ISITC-IOA conforms to SWIFT tag use rule. :20C::SEME//		

Tag:	23G	Function of the Message	Mandatory
Best Practice:	ISITC-IOA conforms to SWIFT tag use rule. :23G:NEWM or :23G:CANC		

### Sequence A1 – Linkages

Tag:	20C	Transaction Reference Number	Conditional
Best Practice:	ISITC-IOA conforms to SWIFT tag use rule. :20C::PREV//		
	Used on rebook to indicate the original trade (pre-trade) that was cancelled.		

### Sequence B – Trade Details

Tag:	98A	Settlement Date	Mandatory
Best Practice:	ISITC-IOA Conforms to SWIFT tag use rule.		

Tag:	98A	Trade Date	Mandatory
Best Practice:	ISITC-IOA Conforms to SWIFT tag use rule.		

Tag:	90A	Deal Price	Mandatory
Best Practice:	Reflected as a percentage of Par. DEAL/PRCT		

Tag:	35B	Identification of the Financial Instrument	Mandatory
Best Practice:	/US/ Cusip – If available /XX/ Dummy Sec. ID Currently, there is an on-going effort to standardize the asset identifier of bank loans with cusips. There is still in it's infancy and large portion of these securities have not been identified with standardized ID's and should otherwise be populated with a dummy security identifier using the /XX/ type. The Issuer ID identified with a dummy Sec. ID can be a Deal ID or Tranche ID		

### Sub-Sequence B1 – Financial Instrument Attributes

Tag:	12A	Classification Type	Mandatory
Best Practice:	Use of ISITC Data Source Scheme is required. CLAS/ISIT/ <b>BKL</b> **New ISITC Financial Type needs to added to list.		

Tag:	11A	Currency of Denomination	Conditional
Best Practice:	ISITC-IOA conforms to SWIFT tag use rule. DENO//		
	Required if industry standard cusip not provided.		

Tag:	98A	Maturity Date	Conditional
Best Practice:	ISITC-IOA conforms to SWIFT tag use rule. MATU//  Required if industry standard cusip not provided.		

Tag:	98A	Issue Date	Conditional
Best Practice:	ISITC-IOA conforms to SWIFT tag use rule. ISSU//  Required if industry standard cusip not provided.		

Tag:	92A	Interest Rate	Conditional
Best Practice:	ISITC-IOA conforms to SWIFT tag use rule. INTR//  Required if industry standard cusip not provided.		

**Sequence C – Financial Instrument Account**

Tag:	36B	Quantity of Financial Instrument to be Settled	Mandatory
Best Practice:	The number of contracts reflected as the face amount of the principal of the debt instrument SETT//FAMT		

Tag:	97A	Account	Mandatory
Best Practice:	ISITC-IOA Conforms to SWIFT tag use rule. SAFE//		

**Sequence E – Settlement Details**

Tag:	22F	Indicator	Mandatory
Best Practice:	The final trade instruction should route to appropriate areas within custodian to trigger a cash payment based off cash party settlement information. The trade should contain the TRAD indicator. <b>SETR//TRAD</b>		

**Sub-Sequence E1 – Settlement Parties**

Tag:	95C	Settlement Party	Mandatory
Best Practice:	PSET//US		

Tag:	95R	Settlement Party (Buyer/Seller)	Mandatory
Best Practice:	DTCYID Preferred, BIC or Name Address if not available. 95R::BUYR/DTCYID/<DTC ID> or 95R::SELL/DTCYID/<DTC ID> 95P::BUYR//<BIC Code> or 95P::SELL//<BIC Code>  95Q::BUYR//Name Address or 95Q::SELL//Name Address		

Tag:	95R	Settlement Party (Delivering/Receiving Agent)	Mandatory
Best Practice:	DTCYID Preferred, BIC, or Name/Address if not available. 95R::DEAG/DTCYID/<DTC ID> or 95R::REAG/DTCYID/<DTCID>  95P::DEAG//BIC Code or 95P::REAG//BIC Code  95Q::DEAG//Name Address or 95Q::REAG//Name Address		

**Sub-Sequence E2 – Cash Settlement Parties**

**\*\*Open question regarding need for a payee name for cash wire settlement details**

Tag:	95R	Account with Institution	Mandatory
Best Practice:	ACCW - Reflected as a FED Wire Number (DSS = USFW) or CHIPS UID (DSS = USCH)  95R ::ACCW/USFW/<ABA Number>  95R::ACCW/USCH/<CHIPS UID>		

Tag:	95a	Beneficiary	Mandatory
Best Practice:	BENM - Reflected as Beneficiary BIC or name.  95P::BENM//<BIC Code>  95Q::BUYR/Name Address or 95Q::SELL/Name Address		

Tag:	97A	Cash Account	Mandatory
Best Practice:	CASH - Reflected as Beneficiary Number  97A::CASH//<Beneficiary Number>		

**Sequence E3 – Amounts**

Tag:	19A	Deal Amount	Optional
Best Practice:	ISITC-IOA conforms to SWIFT tag use rule. DEAL//		

Tag:	19A	Commission, Fees, Charges, Accrual	Optional
Best Practice:	As required only. ISITC-IOA conforms to SWIFT tag use rule. EXEC// (for commissions)		

Tag:	19A	Settlement Amount	Mandatory
Best Practice:	ISITC-IOA conforms to SWIFT tag use rule. SETT//		

Bank Loan sample – Final Trade

:16R:GENL  
:20C::SEME//620099990026642  
:23G:NEWM  
:16S:GENL  
:16R:TRADDET  
:98A::SETT//20060301  
:98A::TRAD//20060213  
:90A::DEAL//PRCT/100,  
:35B:/XX/5000009B2  
KOCH FOREST PRODUCTS INC TERM B  
:16R:FIA  
:12A::CLAS/ISIT/BKL  
:11A::DENO//USD  
:98A::MATU//20121220  
:98A::ISSU//20060213  
:92A::INTR//5,  
:16S:FIA  
:16S:TRADDET  
:16R:FIAC  
:36B::SETT//FAMT/3250000,  
:97A::SAFE//9999  
:16S:FIAC  
:16R:SETDET  
:22F::SETR//TRAD  
:16R:SETPRTY  
:95C::PSET//US  
:16S:SETPRTY  
:16R:SETPRTY  
:95R::DEAG/DTCYID/00123  
:16S:SETPRTY  
:16R:SETPRTY  
:95R::SELL/DTCYID/00274  
:16S:SETPRTY  
:16R:CSHPRTY  
:95R::ACCW/USFW/021000021  
:16S:CSHPRTY  
:16R:CSHPRTY  
:95P::BENM//CITIUS33XXX  
:97A::SAFE//123456  
:16S:CSHPRTY  
:16R:AMT  
:19A::DEAL//USD3250000,  
:16S:AMT  
:16R:AMT  
:19A::SETT//USD3250000,  
:16S:AMT  
:16S:SETDET  
-}