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LMA Launches Co-ordinating Committee Letters

After a benign period, there is anecdotal evidence of an increase in the number of loans in danger of breaching covenants. Since the last downturn, deal structures have become increasingly complex and the number and varying nature of participants in the market has expanded considerably.

At the beginning of the liquidity crunch, the LMA Board identified a number of new areas where work should be undertaken to prepare the market for an economic downturn. A Working Party to look at insolvency issues was established, and that group quickly identified the need to refresh market guidance for when a corporate finds itself in a stressed situation.

As a result, the Working Party took on the task of producing Co-ordinating Committee Letters for use between Borrowers, a Co-ordinating Committee (the "Company Letter") and the Lenders (the "Inter-bank Letter").

Key features of the Company Letter

- Role of Co-ordinator/Co-ordinating Committee and purpose of appointment
- Appointment of lawyers and accountants
- Co-ordinator and Co-ordinating Committee may act in own interests
- Company indemnity
- Actions and protections
- Costs and expenses
- Disclosure
- Termination

Key features of the Inter-bank Letter

- Role of Co-ordinator/Co-ordinating Committee and purpose of appointment
- Actions and protections
- Own responsibility
- Obligations of Co-ordinator and Co-ordinating Committee are several
- Indemnity and exclusion of liability
- Disclosure
- Termination

The LMA Board hopes that these letters will help save both Borrowers and Lenders time at the outset of negotiating the solution to problems the Borrower is encountering.

Clare Dawson, Executive Director of the LMA, said, "This is just one of the many areas in which the LMA has been working to help market practitioners find solutions for the difficult market conditions they currently face."

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For further information, please contact:

Loan Market Association

Clare Dawson, Executive Director	020 7006 6007 clare.dawson@lma.eu.com
Mike Johnstone, Associate Director	020 7006 2267 mike.johnstone@lma.eu.com

Penrose Financial

Andrew Nicolls/John Sarsfield	020 7786 4881/ 66 andrewn/johns@penrose.co.uk
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Loan Market Association

The Loan Market Association was founded in December 1996 by seven leading international banks in London. Its aim was to encourage liquidity and efficiency in both the primary and secondary loan markets by promoting market depth and transparency, as well as by developing standard forms of documentation and codes of market practice. Banks, law firms and other market practitioners/participants are welcome to apply to join the LMA, and the membership currently stands at 399.

The Association was established in anticipation of changing market conditions and of a perceived willingness on the part of the banking community to bring greater clarity, efficiency and liquidity to the relatively under-developed secondary market.

The initiative was clearly well timed, as since 1997, there has been sustained growth in secondary loan activity in the Euromarkets, with volumes for 2007 estimated at EUR 173 billion, a 69% increase over the equivalent figure for 2006. The estimate of secondary trading volumes for 2008 half-year was EUR 47 billion (EUR 101 billion in 2007).

The LMA has gained recognition in the market and has expanded its activities to include all aspects of the primary and secondary syndicated loan markets. It sees its overall mission as acting as the authoritative voice of the syndicated loan market in Europe vis à vis banks, borrowers, regulators and other affected parties.

For more information, please visit www.lma.eu.com.