



LENDER AND AGENT PERSPECTIVES TO IMPROVE SETTLEMENT

Moderator

Ellen Hefferan, Executive Vice President of Operations & Accounting, LSTA, Inc.

Speakers

Karen Morgan, Director of Operations, HalseyPoint Asset Management

Gillian Myers, Senior Vice President, PIMCO

Phil Waldier, Executive Director, Wells Fargo Securities LLC

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Executive Vice President of
Operations & Accounting
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Senior Vice President
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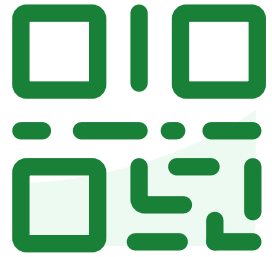
Phil Waldier
Executive Director
Wells Fargo Securities LLC

Audience Polling Question

What is the primary cause of delayed settlement times?

1. Credit Agreement transfer provisions (borrower consent, DQ lists, minimum transfers)
2. Settlement freezes (amendments, month/quarter end)
3. Open upstream trades / naked shorts
4. Settlement Date Coordination does not effectively confirm which trades are ready to settle
5. Not all agent systems have connectivity to ClearPar to avoid booking/position errors
6. Staffing shortages, outsourcing, education and lack of communication
7. Cash management

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What is the primary cause of delayed settlement times?

Punchline: 1,836,217 Trades in 2024

Want to Fix Settlement? Help the Agents!

PROPOSED Changes to Delayed Compensation and Settlement Date Coordination (“SDC”)

- **The following Buyer Delayed Compensation Requirements should be separated from SDC:**
 - By T+1: Sub-allocate, if needed.
 - By T+1 Verify that Buyer is either a lender of record, can affiliate or needs Borrower Consent
 - By Ready Date (as applicable given the type of trade), sign all the required documentation.
- **SDC should be used to reflect when a trade is ready to settle, not to verify if a Buyer should receive delayed compensation**
 - Seller’s check off on SDC means that it has the position in inventory. ClearPar should reject if the position isn’t in MLR.
 - Buyer’s check off on SDC means:
 - that Buyer is a lender, can affiliate or has received Borrower Consent.
 - KYC and tax reviews are complete; entity is onboarded to Agent (collectively, “KYC”).

Lead times – should be employed, if needed, to ensure that funds will be wired on the Settlement Date.

Facilitate Cash Management with Settlement Certainty

Create a Priority Trade that will settle on a certain date (T+5) to ensure cash movement.

WHAT QUALIFIES AS A PRIORITY TRADE?

- **Seller has the position in inventory**
 - By T+1: Seller sub-allocates (if needed) and clicks a button on the ticket that it currently holds the position in inventory and that it is allocated to this sale.
 - ClearPar confirms the position exists on MLR (Markit Loan Reconciliation).
- **Borrower Consent is not needed**
 - By T+1: Buyer sub-allocates (if needed) and represents on the ticket that is either a lender in the facility/deal or can affiliate with a lender either in the facility or, if cross affiliation is permitted within the credit agreement, in the deal.
 - ClearPar confirms this via MLR (Markit Loan Reconciliation) and MEI table which recognizes affiliated entities, utilizing auto affiliate functionality.
- **KYC is completed**
 - By T+2, Buyer verifies that it is fully KYC approved.
 - ClearPar can automate this against KYC / tax reporting tool in ClearPar if used by dealer desks/agents.
- **Facility is not on hold for amendments**
 - Automate this verification against ClearPar deal information.

Documentation is signed by both parties by T+3.

When all is met, trade appears on specific Agent's Report for trades set to close on T+5 date.

Help Us Help You – Use Available Functionality

- To verify positions and affiliation
 - Agents should post positions to Market Loan Recon at the end of each Business Day after all trades have been made effective in the agent's books and records.
 - Whether manually or automatically, onshore or offshore, trades must be made effective in the Agent's books and records on the Settlement Date, not the following day.
 - Auto affiliate technology should be used.
- Agents should provide Deemed Consent Periods for each Deal to ClearPar as part of the Deal Set-up.
- IDEA: Technology should be built in ClearPar to send the request for Borrower Consent (copy of assignment agreement) directly to the Borrower no later than T+1 from when Buyer and Seller have signed the agreements. If consent is not received on or before the expiration of the Deemed Consent Period, the ClearPar platform should deem it.
- If Consent is received for a new lender, such consent should be applied to all open trades in which the Lender has a pending purchase in the related deal/facility. In other words, if another trade is ready to settle first, use that consent and settle it. Alternatively, consent would need to be requested on all open trades.
- KYC – each bank should upload list of KYC'd entities to ClearPar platform to enable the system to automate KYC verification.
- Agents should post DQ Lists on ClearPar so that if the potential buyer/MEI is on DQ list, ClearPar can notify both parties to the trade of this status so that the trade can settle either via economics or a multilateral netting agreement, if possible.
- IDEA: Create self-service functionality within ClearPar to enable trade parties to make changes in a ticket, rather than requiring it be done by a ClearPar closer.

Standardize Settlement Freezes at Month and Quarter End

- Month End: 3 Business Days
- Quarter End: 4 Business Days

- These days need to be calculated as part of Settlement Certainty period if month or quarter ends fall within the period.
- The Agents need to put these periods into the ClearPar platform.

Examples

- April 1st: Buyer enters into a trade to purchase \$1,000,000 of Term Loan B from Party B
- April 2nd: Buyer suballocates to 10 funds that are either a lender in the facility or can affiliate to a fund that is a lender in the facility.
- April 2nd: Seller represents that owns the \$1,000,000 position in inventory.
- April 2nd: Verification is made that the Buying funds have been fully KYC'd.
- Trade is set to settle on T+5: April 8th and is listed on Agent's report of trades to be settled on April 8th.

- April 21st: Buyer enters into a trade to purchase \$1,000,000 of Term Loan B from Party B
- April 22nd: Buyer suballocates to 10 funds that are either a lender in the facility or can affiliate to a fund that is a lender in the facility.
- April 22nd: Seller represents that owns the \$1,000,000 position in inventory.
- April 22nd: Verification is made that the Buying funds have been fully KYC'd.
- Month End Settlement Freeze April 28th – 30th (3 Business Days)
- Trade is set to settle on T+8: May 1st and is listed on Agent's report of trades to be settled on May 1st.

Audience Questions