

SPTF Social Investor Working Group
Reasonable Covenants Sub-Group
September 3, 2020

Overview

The SPTF Social Investor Working Group (SIWG) has developed a sub-group to define reasonable covenants in the context of COVID-19. Below are the minutes from the group's second call. Visit SIWG's [webpage](#) to find minutes from other SIWG meetings and details for our next call. Email Katie Hoffmann at katiehoffmann@sptfnetwork.org with any questions.

Feedback on draft reasonable covenants:

- The document is intended to provide suggestions or guidelines that can help in discussions with investees. There are many reasons for exceptions, but this will ideally provide common ground and simplify the process of reporting and quality checks with respect to these covenants.
- The document is split into 4 sections: definitions related to COVID rescheduling; management of breaches; responsible monitoring and data collection; and forecasting and stress testing.
 - The first sections attempt to agree on indicators and language in the context of COVID in an interesting way, without going too much into details.
 - Sections 3 on monitoring and 4 on forecasting and stress testing are a good start but have not been reviewed in as much detail and should be continuously reviewed as restructurings happen now through the end of the year. We can refer to SPTF resources and find some easier examples for stress testing to be added over time rather than mention specific initiatives as new tools and resources are likely to be developed going forward.
- The challenges include separating the portfolio, defining restructured versus rescheduled so it can be compared across institutions, provisioning, treatment of interest and what has been accrued as revenue by the institution.
- CAT is a great tool, but it is difficult to have a commonly accepted tool as each MIV has its own.
- Having a common language is important, and comparability is key. Having a central database would be ideal, but it is a long way off. We could also partner with CGAP Pulse Survey.
- Forecasting is needed but it's difficult to come up with a universal model as vast majority will use own tools and methodologies. MFIs and MIVs need to work together through constraints in terms of stress testing and indicators which are not streamlined; indicators and qualitative exchanges are more important than streamlining a model.

Next Steps:

- Clean up version and plan to disseminate document with the goal to agree on guidelines for the industry:
 - Share it as a working document with MIV9 group, larger Social Investor Working Group, FIEC, networks, and Microfinance Consortium to gather feedback and buy-in
 - Document can help form ongoing discussions with investees.
 - Review at end of the year based on these ongoing discussions.
- Need to think through how to help investors understand how to apply this document
- In a future session, review how to improve the CAT, whether CAT is the proper tool to capture COVID restructuring, and if solvency indicators should be added as currently the CAT focuses on liquidity.