

December 22, 2016

To: ISDA Credit Derivatives Determinations
Committee (Americas)

Re: iHeartCommunications, Inc. Auction Date

This statement is submitted in connection with the general interest question posted to the ISDA Credit Derivatives Determinations Committee (the “DC”) regarding the Auction Date for the Auction to be held with respect to iHeartCommunications, Inc. (“iHeart”).¹ The purpose of this statement is to request that the DC set the Auction Date no earlier than Tuesday, January 17, 2017, assuming the DC does not amend the Credit Derivatives Auction Settlement Terms (as reflected in the auction settlement terms for, among others, Peabody Energy, Pacific Exploration & Production, and Sabine Oil & Gas, the “Recent Auction Terms”) in a manner that would shorten the delivery and buy-in timeline.²

On December 21, 2016, the DC determined that: (1) a Failure to Pay Credit Event occurred with respect to iHeart on December 20, 2016; (2) the date on which the requirements for the Credit Event Resolution Request Date were satisfied was also December 20, 2016; and (3) ISDA should hold one or more auctions to settle Relevant Transactions with respect to iHeart.³

Under Section 3.2(b)(i) of the DC Rules, “the Auction Date shall be third Relevant City Business Day immediately preceding the 30th calendar day after the Credit Event Resolution Request Date” (the “DC Rules Default Auction Date”). However, Section 3.2(b)(i) also permits the Global Dealer Voting Members and Regional Dealer Voting Members of a Convened DC to modify the DC Rules Default Auction Date.

Under the 2014 Definitions, as modified by the Recent Auction Terms, the timeline for settlement of a Representative Auction-Settled Transaction is: (1) the Notice of Physical Settlement Date, by which the Buyer is required to deliver a Notice of Physical Settlement (“NOPS”), is the next business day after the Auction Final Price Determination Date;⁴ (2) the Physical Settlement Date under a Representative Auction-Settled Transaction is no earlier than the Final Notice of Physical Settlement Date (i.e., the 15th calendar day after the Notice of Physical Settlement Date),⁵ with the actual time between the Final Notice of Physical Settlement

¹ Capitalized terms used but not otherwise defined herein shall have the meanings set forth in the 2014 ISDA Credit Derivatives Definitions (the “2014 Definitions”) or the 2016 ISDA Credit Derivatives Determinations Committees Rules (January 20, 2016 version) (the “DC Rules”).

² Under Section 3.2(d) of the DC Rules, the DC may amend the Credit Derivative Auction Settlement Terms by a Supermajority vote and only after a public comment period, unless a Supermajority resolves to allow such amendment without a public comment period.

³ See Credit Event 2016122002 re iHeartCommunications, Inc., available at: <http://dc.isda.org/cds/iheartcommunications-inc-2/>

⁴ See, e.g., Peabody Energy Auction Settlement Terms modification to Section 8.2 of the 2014 Definitions, available at: <http://dc.isda.org/documents/2016/04/peabody-ast-final.pdf>

⁵ See, e.g., Peabody Energy Auction Settlement Terms modification to Sections 8.2 and 8.17 of the 2014 Definitions.

Date and the Physical Settlement Date dependent on the Physical Settlement Periods of the Deliverable Obligations specified in a NOPS or any NOPS Amendment Notice; and (3) the Buy-in Date is no earlier than the fifth Business Day after the Physical Settlement Date.⁶

Here, using the DC Rules Default Auction Date of Friday, January 13, 2017 for the iHeart Auction (or otherwise reducing the delivery and buy-in timeline for Representative Auction-Settled Transactions) would create disruption in the market.

First, applying the DC Rules Default Auction Date in this context would put the Auction Date immediately prior to the Martin Luther King holiday weekend. The same practical concerns motivating the exclusion of the day after Thanksgiving from the definition of Relevant City Business Day should guide the DC in this situation. Setting an Auction Date after the DC Rules Default Auction Date would be consistent with market expectations based on recent auctions, some of which have been set weeks after the DC Rules Default Auction Date (including Puerto Rico (Auction Date 14 days after default date), Pacific Exploration & Production (5 days), and Alpha Appalachia Holdings (20 days)).

Second, iHeart's 14% Senior Notes due 2021 (the "14% Notes") – which, based on recent trading data, are likely the cheapest Deliverable Obligations in any Auction with respect to iHeart – have an upcoming semi-annual interest payment with a record date of January 15, 2017 and an interest payment date of February 1, 2017.⁷ We understand that for bonds such as the 14% Notes that clear through The Depository Trust Company ("DTC"), DTC will only make payment to the holders as of the interest payment date (here, February 1, 2017) without reference to the record date set forth in the indenture. This disconnect creates the possibility of confusion over who is entitled to payment of the accrued interest and how the accrued should be factored into the Auction Final Price. Given the amount of accrued interest in question, that confusion could result in a significant distortion to the market price in the Auction.

Setting an Auction Date and Auction terms that permit the Buyer under a Representative Auction-Settled Transaction to deliver Bonds after February 1, 2017 would be consistent with market expectations and preserve the intended function of the Auction as an efficient settlement process. In order to ensure such an outcome:

- The DC should set an Auction Date no earlier than the first normal day of bond trading activity after the DC Rules Default Auction Date of January 13, i.e., no earlier than Tuesday, January 17, 2017. An Auction Date as early as January 17 addresses the record date issue noted above only if the DC does not shorten the delivery and buy-in timeline under the Recent Auction Terms – or disagree with our description of such timeline – as outlined in the fourth paragraph of this statement. Specifically, an Auction Date as early as January 17 would address the concerns noted above assuming, consistent with the Recent Auction Terms: (1) the Notice of Physical Settlement Date is no earlier than January 18; (2) the Physical Settlement Date is no earlier than February 2; and (3) the Buy-in Date is no earlier than February 9.
- Alternatively, if the DC amends the delivery and buy-in timeline in the Recent Auction Terms, or disagrees with our description of the timeline, the DC should set an Auction

⁶ 2014 Definitions, Section 9.7.

⁷ The 14% Notes were issued by Clear Channel Communications, Inc., which subsequently changed its corporate name to iHeart Media, Inc. See Indenture for 14% Notes, Section 1.01 (definitions of "Interest Payment Date" and "Record Date").

Date no earlier than January 23. That would ensure: (1) a Notice of Physical Settlement Date no earlier than January 24; (2) a Physical Settlement Date no earlier than January 27 (based on an assumed T+3 market practice); and (3) a Buy-in Date no earlier than February 3.

- As a third alternative, the DC could modify the 2014 Definitions and Recent Auction Terms for purposes of the iHeart Auction to provide that Seller has to pay Buyer for accrued interest, consistent with the standard market practice for transactions settled through DTC, whether before or after the record date for interest in the relevant indenture. Under Section 3.12 of the 2014 Definitions, the default is that accrued interest is excluded from the Outstanding Principal Balance being delivered in a Physical Settlement, and this outcome is further confirmed and clarified in the Recent Auction Terms: “For the avoidance of doubt, no additional amount shall be due from Seller to Buyer in respect of any accrued interest on the Deliverable Obligation(s) as at the Delivery Date.”⁸

In short, the DC should set an Auction Date and Auction terms that permit delivery of Bonds under Representative Auction-Settled Transactions after payment of the upcoming semi-annual coupon on the 14% Notes on February 1, 2017. Such terms would be consistent with prior practice and market expectations, and would avoid potentially significant anomalies in the price determination process under the Auction.

* * *

We confirm that a copy of this statement may be provided for information purposes only to the members of any Credit Derivatives Determinations Committee convened under the DC Rules in connection with the iHeartCommunications, Inc. General Interest Question to consider the issues discussed herein, and that it may be made publicly available on the ISDA Credit Derivatives Determinations Committee website. We accept no responsibility or legal liability in relation to its contents.

⁸ See, e.g., Peabody Energy Auction Settlement Terms modification to Section 8.18 of the 2014 Definitions.