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Anti-crisis debt restructuring: specifics of implementing modern covenants

Nadiia Antypenko
National Technical University
Igor Sikorsky Kyiv Polytechnic Institute, Kyiv
Nadiia Roshchyna
National Technical University
Igor Sikorsky Kyiv Polytechnic Institute, Kyiv

Abstract. *The paper examines anti-crisis debt restructuring in Ukrainian corporate practice, focusing on the role of modern financial and non-financial covenants in ensuring contractual discipline and financial resilience under crisis conditions. The study emphasizes the use of standardized covenant definitions, a 13-week cash flow forecast as a monitoring tool, and harmonization with LMA/LSTA documentation to reduce agency costs and prevent technical breaches. The proposed approach enhances liquidity management, improves creditor–debtor coordination, and supports sustainable debt recovery.*
Keywords: *debt restructuring; financial covenants; liquidity management; 13-week cash flow forecast; corporate finance; creditor–debtor relations.*

The relevance of the study is driven by the need to ensure the resilience of Ukrainian corporates' debt relations under contemporary crisis conditions–amid war- and energy-related shocks, disrupted supply chains, and high cash-flow volatility–

which often renders standard contract terms ineffective [1]. Decisive importance is attached to the quality of modern covenants as an instrument of contractual discipline, since clear metric definitions, a statistically substantiated buffer of financial resilience, balanced cure mechanisms, and phased trajectories back to baseline debt thresholds reduce agency costs and shape firms' investment and financial behaviour [1; 2; 3]. Aligning covenants with short-term debt management tools adapted to national accounting and reporting requirements creates a methodological basis that enhances the predictability of creditor–debtor interactions and strengthens the investment appeal of the domestic corporate sector [1; 2].

In addition, the study considers types of covenants in two complementary dimensions. First, by indicator content, it distinguishes financial covenants focused on debt service coverage, leverage (net debt to EBITDA), interest coverage, and a minimum liquidity buffer, and non-financial covenants covering information undertakings, restrictions on dividends, new borrowing, capital expenditure and asset disposals, as well as *negative pledge* provisions [2]. Second, by application regime, it differentiates maintenance covenants, tested periodically according to the monitoring schedule, and incurrence covenants, activated upon specified actions and requiring indicators to remain within set thresholds after the transaction [1; 2]. In this connection, it is appropriate to account for event-triggered conditions–change of control, cross-default, pari passu–which determine the scope of creditors' rights when the borrower's risk profile changes [2]. As shown in theoretical and empirical research, a systematic combination of these types–subject to clear definitions and transparent oversight–reduces agency costs and increases the predictability of corporate financial behaviour [1; 4]. For the purposes of this study, "covenant indicators" refer to debt service coverage, net debt to EBITDA, interest coverage, and a minimum liquidity buffer; "normalisations" denote a limited set of EBITDA and related adjustments with quantitative and time limits (add-backs, carve-outs) [5].

Applying an in-depth review of existing methodologies and considering the specific operating conditions of Ukrainian enterprises, it is advisable to adopt an integrated approach that: first, combines diagnostics of debt agreements; second, uses the 13-week cash-flow forecast (direct method) as an instrument of operational monitoring to fix threshold levels and determine the headroom of covenant indicators, taking seasonality into account; and third, unifies the definitions of key covenant indicators and the rules for their periodic monitoring and reporting, harmonised with standard LMA/LSTA documentation and adapted to national accounting and reporting requirements [5; 4]. In view of the above, threshold levels and headroom should be determined with regard to revenue and cost seasonality, historical volatility of operating cash flows, sensitivity to logistics and price shocks, the debt service schedule, and creditors' information requirements. Accordingly, a range-based approach to headroom with periodic review within the monitoring calendar is proposed [5; 6]. At the same time, the application of these provisions is to be aligned with national regulation of insolvency and preventive instruments that shape the contractual context and define the priority of creditors' claims [5; 6]. Furthermore, the proposed approach helps optimise covenants in Ukrainian corporate practice and reduces coordination costs in creditor interactions [6].

The expected practical effect is threefold. First, lower frequency of technical breaches due to clear definitions of covenant indicators, set thresholds, and predefined response procedures (cure, including equity cure with limits on frequency and amount), which minimises disputes and unscheduled approvals [2; 6]. Second, stronger short-term liquidity management through the use of the 13-week cash-flow forecast (direct method) as an operational monitoring tool for fixing thresholds and determining headroom, enabling early identification of gaps and timely managerial corrections [5; 6]. Third, reduced costs related to ambiguous interpretation of contract conditions, since harmonising documentation with LMA/LSTA forms and unifying normalisation rules (add-backs, carve-outs with quantitative and time limits) eliminates divergent readings and accelerates approvals [7; 9]. In parallel, the enterprise's bargaining position is strengthened through a transparent reporting regime (regular maintenance tests and event-driven incurrence tests) and a reproducible analytical package, which lowers information asymmetry with creditors [4].

At the same time, the proposed methodology has limits of applicability–notably in sectors with very high seasonality and price volatility (e.g., agriculture and retail), where standard thresholds and typical normalisation rules may be insufficient; in such cases extended normalisation regulations (separate baskets for one-off events, limits on "recurring" adjustments, time windows for seasonal deviations) and detailed information undertakings are advisable [4]. An additional constraint arises for enterprises changing accounting policies or transitioning to other reporting standards, where time-series comparability declines and requires additional transitional provisions in credit agreements [4]. Promising avenues for further research include expanding the Ukrainian empirical base with event-study (hazard) models of breaches, quasi-experimental assessment of maintenance/incurrence combinations' impact on default risk, and sensitivity analysis to monitoring schedules and covenant configurations under alternative NBU macro-financial scenarios [4; 6]. Ultimately, further progress will require combining firm-level microdata with system-level financial-stability information to refine applicability boundaries and produce sector-specific guidance [6]. At the level of corporate governance, responsibility for covenant compliance (finance function/risk committee) should be formalised, alongside an internal covenant register and monitoring calendar, and a mechanism for rapid escalation in case of a pending breach.

Summarising the results, we contend that anti-crisis debt restructuring is effective when modern covenants–aligned with short-term liquidity tools and transparent response rules–constitute its foundation. Integrating unified definitions (including for adjusted EBITDA and related indicators), a regulated monitoring regime, and clear normalisation rules within restructuring agreements creates a reproducible basis for stabilising debt burdens and restoring investment activity in Ukraine's corporate sector. In essence, anti-crisis debt restructuring is not merely a redistribution of schedules and rates, but a standardised system of contractual discipline: it sets transparent thresholds, defines headroom with due regard to seasonality and risks, formalises event-triggered conditions (*change of control*, *cross-default*, *pari passu*), and ensures manageable short-horizon liquidity. The practical effect manifests in fewer technical breaches, faster approval cycles, and better stakeholder communication–ultimately lowering the likelihood of disruptive scenarios.

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