

TERMS OF USE: Code is provided “as is” and without any guarantee of accuracy or support. If you utilize this code (or associated output data) in your research, you agree to cite the related paper.

Demerjian, P., Owens, E., 2016. Measuring the probability of financial covenant violation in private debt contracts. *Journal of Accounting and Economics* 61, 433-447.

The posted code consists of three separate SAS files (for organizational purposes), each of which performs a discrete step in the process:

Step 1 (using only Compustat data) creates a panel of quarter-over-quarter changes (in ratio form) of all fifteen financial ratios that underlie the fifteen financial covenants that are ultimately included in our *PVIOL* measure, where each observation is then categorized into a size/profitability double-sorted bin. This panel essentially spans all Compustat firm-quarter observations with available data. The output files are used to draw observations in the nonparametric simulation in Step 3.

Step 2 creates the Dealscan sample, and computes covenant slack for all covenants on each Dealscan package with available data.

Step 3 runs the nonparametric simulation (using files created in the first two steps), which computes our probability of violation measure.