LMA Loan Market Association

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SHAPING MARKETS. THEN AND NOW.

LMA Insights:

LMEs – Where are we now?

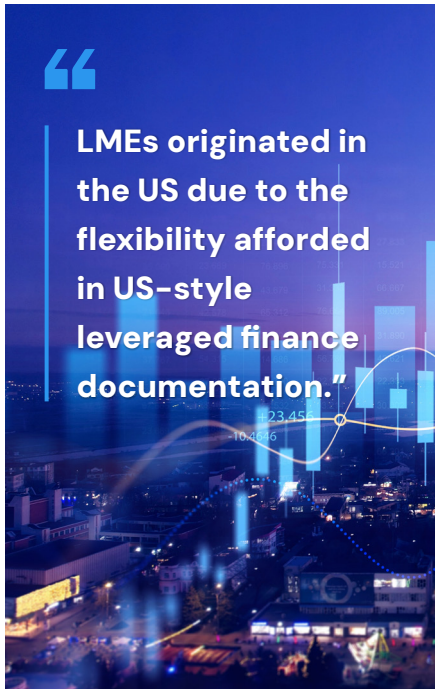
June 2026

Introduction

"Liability management transactions" or "liability management exercises" **("LMEs")** have become an increasingly relevant feature of the European leveraged loan market. As these transactions develop and become even more sophisticated, it is important for market participants to understand the implications.

Why LMEs matter in Europe and how much this mirrors the US

At a glance: LMEs originated in the US due to the flexibility afforded in US-style leveraged finance documentation. In Europe, LMEs are increasingly discussed and used, in particular on deals with US-style leveraged finance documentation, but views are mixed on whether they represent a sustained, market-wide "trend" or a more circumstantial toolkit used in special situations.



Why LMEs matter for European market participants

- **Timing and outcome control:** LMEs enable stakeholders to achieve a faster and more predictable outcome as they occur out-of-court and are privately negotiated. However, while both the US and Europe have well-established court-assisted restructuring processes, LMEs in the US are often used to achieve targeted outcomes outside Chapter 11, whereas European market participants have historically placed greater emphasis on negotiated and consensual solutions, as well as flexible restructuring tools, to deliver similar outcomes – contributing to differing market dynamics.
- **Opportunities and risks:** LMEs can create opportunities for those able and willing to provide fresh liquidity and can change relative priorities between creditors holding the same instrument, thereby creating "winners and losers".
- **Interaction with European processes:** LMEs can be carried out instead of or sit alongside (and sometimes compete with) court-assisted restructuring tools such as an English scheme/ restructuring plan or a German StaRUG proceeding.

How the European market has evolved

- **History:** LMEs were previously typically used late in the cycle, often as a last resort before a formal restructuring or insolvency process was started.
- **Today:** Today, LMEs are used earlier and more proactively as part of balance-sheet management and liquidity

planning as a way to pre-empt a distress scenario that would otherwise lead to a restructuring or insolvency process.

- **Recent European activity:** Recent data suggests that LMEs are becoming more relevant for European market participants as refinancing pressure increases and more flexible documentation brings greater focus on what can be achieved within existing terms – see *Evolution of European documentation* below. 9fin data, which captures a broader range of liability management and restructuring-style transactions (including debt-for-equity exchanges), points to headline growth from 15 transactions in 2024 to 22 in 2025. That increase appears to be driven largely by more inclusive *pro rata* restructuring-style transactions, rather than a broad-based rise in uptier, dropdown, double-dip or *pari* plus style structures. Only a small number of European leveraged loan transactions have involved these types of structures to date.
- **In practice:** Nowadays, LMEs tend to become relevant when a capital structure starts to weaken (for example, where pricing and trading levels imply an increased refinancing risk). Sponsors and core creditor groups may then explore options such as discounted debt repurchases, new-money injections and debt priority adjustments to stabilise liquidity and extend maturities. Both in the past and today, European market participants tend to approach LMEs more cautiously than market participants in the US.

Europe vs US: is this a European "trend"?

- **Evolution of European documentation:** European documentation has, over time, incorporated more US-style flexibility as US-style TLBs entered the European market (particularly in sponsor-friendly institutional terms). This has created more room for LME-style techniques which was not available in the LMA leveraged facilities agreement, although the drafting details remain deal-specific. This has also led to a focus on "LME blockers" (see further *Documentation and Structural Considerations below).*
- **US driving the market:** LMEs are still more common and aggressive in the US than in Europe. This is reflected in the number and composition of US activity; based on Octus data, 35 out of 51 US liability management and out-of-court restructuring-style transactions in 2024 involved uptier, dropdown, double dip or *pari* plus style structures – around 69% of total recorded activity. That proportion remained elevated in 2025, with 29 out of 45 transactions (or 64%) involving those types of structures (albeit transaction numbers decreased).

By comparison, Europe has seen a much smaller number of high-profile situations, although cases such as Selecta, Hunkemöller, Altice and Ardagh show that these techniques are no longer confined to the US. European market participants are looking at how LMEs are being implemented and challenged in the US as guidance when considering participating in LMEs in European deals. Nevertheless, the European approach to LMEs still tends to be more conservative than the US approach to LMEs.

- **Why views are mixed:** Some see LMEs as the natural next step as liquidity tightens and documentation evolves; others view them as deal-specific and often constrained by European deal terms and creditor composition.
- **Forum shopping:** A further European-specific concept is that local insolvency and restructuring regimes (and governing law choices) can materially affect strategy and outcomes, which can shape whether parties pursue an out-of-court LME versus a court-assisted route and where the parties select to do so.

How LMEs actually work

LMEs are contractual pre-restructuring or restructuring techniques that utilise flexibility – or perceived flexibility – within the terms of existing financing documents to alter the relative priorities of creditors, raise new money, or both.

There are two main categories of LME transactions: uptier and dropdown (asset or divestment). As the market evolves, more sophisticated LMEs have developed that combine and expand upon these initial core categories to create new hybrid types of LMEs, such as double dip and *pari* plus LMEs.

A typical LME process (simplified)

Early warnings: Signs of upcoming distress (e.g., debt trading meaningfully below par) prompt sponsor discussions with core creditors and/or formation of *ad hoc* creditor groups.

LME is negotiated: Sponsor/borrower and the core creditors (with financial advisers and legal counsel) negotiate an LME package that uses available contractual flexibility.

Creditor consent is obtained: Additional material creditors are approached to reach the required approval threshold (often a majority, sometimes up to 66⅔%, depending on the document set).

Implementation: The borrower enters into the documentation implementing the agreed LME (typically via the agent acting on instructions of the majority lenders), which then binds all lenders within the relevant voting mechanics.

Creditor dynamics, including the rise of cooperation agreements

The rise of LMEs has fundamentally altered the dynamics between creditors and between creditors and borrowers, giving rise to an increasingly structured and legally contested form of creditor organisation: the cooperation agreement **("Co-op")**.

Why creditors use Co-ops

- **Equal treatment:** Co-ops aim to treat participating creditors equally by aligning members' positions. Non-participating creditors may be disadvantaged (e.g. left behind) by the proposed LME.
- **Avoid a race-to-the-bottom:** Co-ops can reduce bidding among creditors to offer the borrower the most attractive terms because the creditors pre-agree to negotiate with the borrower as a group.

Why borrowers dislike Co-ops

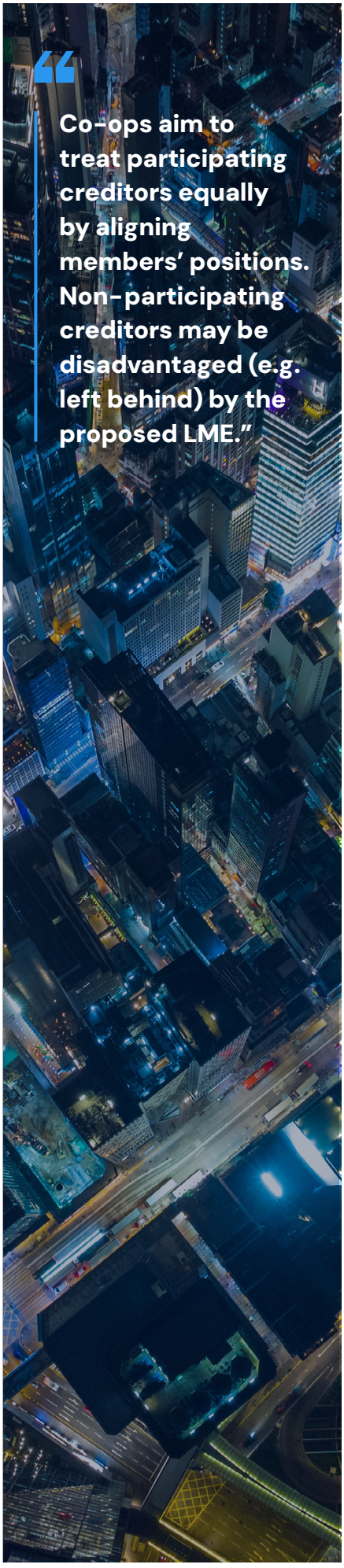
Borrowers generally dislike Co- ops because they strengthen the position of creditors. They may see them as reducing sponsor/borrower flexibility and may perceive them as potentially affecting competition among creditors with regards to terms. Borrowers therefore may seek to include "anti-cooperation" provisions to prevent creditors entering into Co-ops. To date, such provisions have rarely succeeded in the US and (so far) do not appear to have succeeded in Europe.

Emerging tensions

In recent cases, Co-ops are being used in ways that can deliberately exclude minority creditors because the majority creditors do not give minority creditors the option to participate in the Co-op.

US versus European Co-ops

In both the US and Europe, sponsors/borrowers may seek to limit creditor coordination where possible. However, in the US this has more frequently been reflected in efforts to restrict or pre-empt Co-op formation (for example through anti-Co-op provisions). In contrast in the



European market, Co-ops have been more commonly used by creditors as a means of coordinating positions and engaging collectively with sponsors/borrowers.

Competition law and litigation

Recently, certain sponsor-led claims were brought in the US alleging Co-ops can constitute anti-competitive behaviour and a breach of competition law. It remains to be seen how US courts will respond to these developments; to date, comparable formal claims do not yet appear to have been brought in Europe.

Documentation and structural considerations

LME blockers

With the combination of US-style documentation influencing the European loan market and the rise of high-profile court cases in the US disputing LMEs, creditors started to focus on protective covenant language in credit agreements. These are known as "LME blockers". Examples include *Chewy* protection, *JCrew* protection (or protection against transferring certain valuable categories of assets outside the obligor group), Serta protection, the capping of cost savings and synergies in EBITDA adjustments, and the limitation of super-grower baskets specifically to acquisitions and investments.

Substance over labels

Market shorthand or jargon (e.g., *"Chewy", "JCrew", "Serta"*) is helpful for signalling the type of protection, but the drafting detail is what matters. Whether a deal is actually protected depends on the precise definitions, baskets, exceptions and amendment/voting mechanics in the relevant documents.

- ***Chewy-style*** concepts can be drafted beyond guarantor resignation limits to also restrict transfers, disposals, loans and other investments from Restricted Subsidiaries to Unrestricted Subsidiaries or from Obligors to Non-Obligors.
- ***JCrew-style*** concepts can extend beyond intellectual property to other material assets (e.g., trade receivables, real estate, plant, machinery and equipment), depending on the business.
- ***Serta-style*** concepts can be expanded not only to limit uptier transactions but also to restrict multiple layers of debt and non-pro rata debt purchases/repayments.

Voting

While LME blockers can provide meaningful protection, they may be insufficient on their own to prevent an LME. For minority creditors, the critical question is whether waivers and amendments to blocker provisions are themselves all-lender consent matters.

Structural considerations

Borrowers and creditors should be alert to structural considerations, including the ability to incur holding company debt (HoldCo Debt) versus operating company debt (OpCo Debt). While OpCo Debt is typically restricted in senior financing documents, HoldCo Debt often is not. In Europe, one feature increasingly used alongside LMEs is deleveraging by shifting a portion of OpCo Debt to HoldCo Debt. This can be particularly relevant where a leverage maintenance covenant is (or is expected to be) breached.

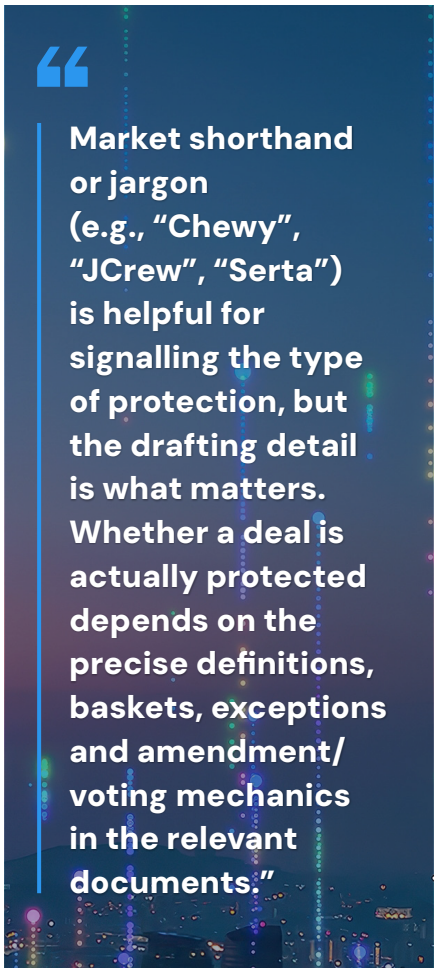
What this means for loan market participants

The LME and Co-op landscape in Europe is evolving rapidly, with significant implications for all participants in the European leveraged loan market.

For borrowers and sponsors

Borrowers and sponsors must take a more forensic approach to their documentation – both at origination and during periods of distress or potential distress. Anti-cooperation provisions have so far not featured in many deals, but are being attempted regularly.

Careful consideration should be given to the flexibility required during both good times and bad, and borrowers should make



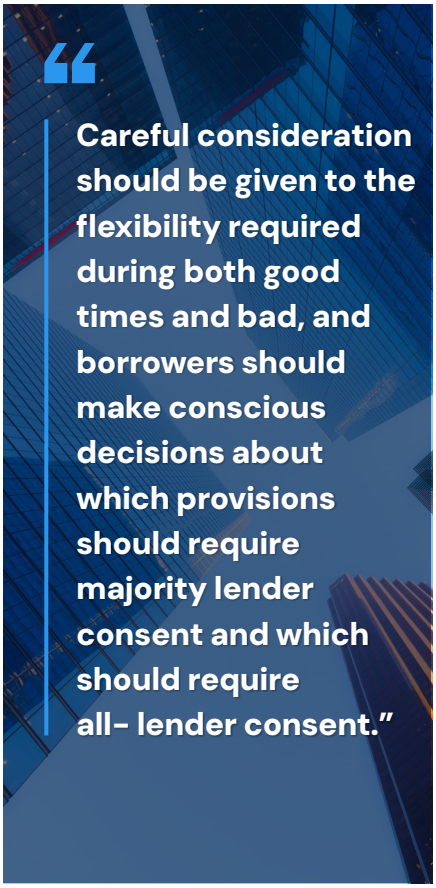
conscious decisions about which provisions should require majority lender consent and which should require all-lender consent.

Pre-emptive action is also becoming increasingly popular, and borrowers and sponsors may be able to optimise their balance sheet and returns by proactively agreeing LMEs with core creditors in pre-distress scenarios.

For creditors and investors

For creditors and investors, the LME environment creates both opportunities and risks.

- **Participation risk:** Being in the "right" group at the right time can improve recoveries; missing the window can result in a significant haircut.
- **Priority risk:** In an uptier-style transaction (including rescue/new-money structures), non-participating creditors may be left in a subordinated instrument subject to deeper haircuts, while the new instrument may benefit from discount pricing, exit economics and higher ranking.
- **Consent leverage:** Co-ops can facilitate creditors working towards a common solution and goal and can also assist the borrower in reaching the required majority consent threshold to effect the proposed LME.



- **Deal-away limitation:** Co-ops are generally less effective against "deal-away" strategies where a borrower raises financing from new lenders without requiring existing-lender consent.
- **Legal risk exposure:** Creditors should remain alert to potential legal risks, particularly where coordination goes beyond defensive alignment and into affirmatively harming non-Co-op creditors.
- **Minority creditor considerations:** At origination, creditors should consider which LME blockers they require and, where minority risk exists, ensure that amendments or waivers to those protections are all-lender consent matters.
- **Getting ahead of LME risk:** Creditors and investors are increasingly preparing before formal engagement by taking restructuring advice, reviewing documentation to assess LME flexibility and monitoring the lender base, particularly concentration among lenders who could form a controlling majority.

Looking ahead

As the LME and Co-op landscape further evolves, it is important for market participants to understand these developments. The LMA will continue to support this by promoting education, dialogue and transparency to ensure market participants can navigate the opportunities and challenges ahead.

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To learn more about the LMA's work to support efficiency, liquidity and transparency in the EMEA loan markets, please visit the LMA's website:

https://www.lma.eu.com