

LMA provides guidance on debt buy-back

The LMA announced today that it will be amending its primary facility agreements to include guidance on the issue of debt buy-back, with alternative options for borrowers and lenders to negotiate depending on whether debt buy-back is permitted or not.

There has been considerable debate recently about the question of borrowers buying back their debt at a discount. This is a new phenomenon in the syndicated loan market, prompted by lenders offering loans at significant discounts in the secondary market for liquidity rather than credit reasons, and therefore has not previously been contemplated in loan documentation.

The LMA Board considers that the decision to permit debt buy-back or not on a specific transaction is primarily a commercial one, to be agreed between the borrower and the lenders. However, the Board feels that if debt buy-back is permitted, it should be conducted in such a way that it maintains one of the fundamental principles of syndicated lending, that the lenders be treated equally by the borrower. We believe mechanisms to do this can be achieved while, at the same time, giving flexibility to borrowers to redeem debt.

The LMA will be amending its primary facility agreements to provide options for the borrower and the lenders to negotiate whether debt buy-back should be permitted or not. The drafting will address issues which the parties should consider if they wish to permit debt buy-back, including the process by which the borrower approaches the syndicate to buy back its debt, the cash which the borrower is permitted to use for such debt purchases, and voting rights if the debt buy-back does not result in the debt being extinguished.

Clare Dawson (LMA Executive Director) commented

"Although we consider the issue of a borrower buying back its own debt to be largely a commercial one we will be reviewing our standard documentation to ensure this is adequately provided for, with the effect that all lenders are treated equitably."

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NOTES TO EDITORS

Loan Market Association

The Loan Market Association was founded in December 1996 by seven leading international banks in London. Its aim was to encourage liquidity and efficiency in both the primary and secondary loan markets by promoting market depth and transparency, as well as by developing standard forms of documentation and codes of market practice. Banks, law firms and other market practitioners/participants are welcome to apply to join the LMA, and the membership currently stands at 381.

The Association was established in anticipation of changing market conditions and of a perceived willingness on the part of the banking community to bring greater clarity, efficiency and liquidity to the relatively under-developed secondary market.

The initiative was clearly well timed, as since 1997, there has been sustained growth in secondary loan activity in the Euromarkets, with volumes for 2007 estimated at EUR 173 billion, a 70% increase over the equivalent figure for 2006.

The LMA has gained substantial recognition in the market and has expanded its activities to include all aspects of the primary and secondary syndicated loan markets. It sees its overall mission as acting as the authoritative voice of the syndicated loan market in Europe vis à vis banks, borrowers, regulators and other affected parties.

For more information, please visit www.lma.eu.com.