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REPORT

European Loans September Wrap-Up:

Back from the Beach, Back to the Limit: AI Default Shields Arrive as New Paper Revives a Raft of Aggressive Terms

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Per LevFin Insights, September's launch volume amounted to €11.8 billion, one of the smaller monthly tallies of the year. But the modest volume was heavily weighted to M&A issuance, as arrangers started clearing their underwrite risk. Indeed, M&A issuance for the month was comparable with some of the bigger months of 2021, whereas opportunistic repricings and A&E transactions were nearly silent ([Sophos](#)' extension being the notable exception). While most deals cleared the market, the tone did start to soften in late September: the average bid of the JP Morgan European Leveraged Loan Index slipped 3 bps to 95.31, the lowest month-end reading since March.

During the month, Covenant Review published reports on the following deals: [Expleo](#), [Domidep](#), [Network Plus](#), [Compleat Group](#), [InPost](#), [IFS](#), [Intertek](#), [Peranel](#), [Terras](#), [Sunday Natural](#), [Everllence](#), [Plenergy](#), and [SGB-SMIT](#).

Documentation Scores and Covenant Trends

On a rolling three-month basis, the European Composite Score tightened marginally from 3.91 at the end of August to 3.87 as of the end of September. Composite Scores are derived from six subscores: Collateral Protection, Default Protection, Lenders' Repricing Optionality, Liquidity Protection, Reporting Protection, and Value Leakage. Lenders' Repricing Optionality saw the largest improvement (3.80 to 3.70), followed by Default Protection (4.08 to 4.02) and Value Leakage (3.87 to 3.83), while Reporting Protection was unchanged at 3.38. Transfer provisions continue to be a significant concern for investors in European loans, and Liquidity Protection bucked the trend and weakened materially (3.64 to 3.80). Notably, the U.S. Composite Score moved in the opposite direction, weakening from 3.76 to 3.92, leaving Europe (on an L3M basis) marginally more protective than the U.S.

That headline stability, however, masks the quality of the draft terms that launched in September. The term sheets we reviewed during the month carried an average Expected Composite Score of 4.24 and an Expected Worst-Case Score of 4.46, the weakest monthly reading in our data set since the start of 2025. In short, sponsors came back after the summer break starting from their most aggressive precedent, with much of the month's investor engagement focused on clawing back terms just before, or during, syndication. Equally, the spread between documents was wide: amend and extend transactions on existing (often older vintage) paper scored in the high 2s to the high 3s, while new-money LBO and recap term sheets clustered in the mid-4s.

Uncontrollable Covenants

Artificial (Covenant) Intelligence: AI as Both EBITDA Addback and Default Shield

In our report, [Artificial \(Covenant\) Intelligence: AI-Related EBITDA Addbacks and Default Relief in European Loans and Bonds](#), we discuss the first creep of explicit artificial intelligence-related provisions into financing terms as sponsors sought to buffer the impact of AI and related new technology. AI-related impact presented itself in two ways. First, as an uncapped addback to EBITDA, allowing any revenue losses or costs attributable to AI disruption to be added back, and second, as an "uncontrolled event" in the events of default section, under which grace periods for curing any default are automatically extended or suspended for as long as the event is continuing. The combined effect is that if AI disrupts the business, the borrower can inflate EBITDA to mask any financial deterioration and, at the same time, prevent any resulting default from crystallising into an enforceable event of default, therefore insulating the borrower from lender intervention in precisely the scenario in which lenders would most need it.

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We encouraged lenders to push for (1) the removal of AI from any list of uncontrolled events (or equivalent term(s)), (2) any AI-related addback to be subject to the overall EBITDA adjustments cap, and (3) a hard longstop on any extension of grace periods for Events of Default. For more on event-driven default relief generally, please see [Out of Control? Event-driven Default Relief Under European Leveraged Loans](#).

Big Beautiful Adjustments for Tariffs

AI was not the only macro-economic risk being addressed in the documentation. Tariff-related adjustments are not new to Europe: we flagged a tariff exclusion in the financial calculation provisions of a European high yield bond in June 2025 (see [Market Alert: Urbaser Features Big Beautiful Adjustments for Tariffs](#)), warning that such flexibilities tend to spread. Over a year on, term sheets this month continued to include uncapped addbacks for losses, costs and revenue reductions attributable to tariffs and other barriers to trade, supply chain disruption and, in some cases, substantial increases in energy or resource pricing. In several deals, the same events were again mirrored in the Events of Default, as “uncontrolled events” again extending or suspending grace periods.

In recent years, European leveraged loan documentation has shown that it is susceptible to shifts in the geo-economic environment. Sponsors are continually adapting increasingly complex financing terms to cushion borrowers against any related volatility, with each new source of market dislocation, be that pandemic, energy, tariffs and now AI, addressed, in turn, in both the “EBITDA” definition and the default provisions. For lenders, the very metrics and triggers intended to provide early warning of credit deterioration risk are being neutralised when they matter the most.

Omnibus LMT Blockers: A First Sighting in Performing Credit, but Mind the Gaps

Until recently, omnibus liability management transaction (“LMT”) blockers have been confined to post-restructuring or stressed situations. This month saw the first such provision in a performing, sponsor-backed new-money deal. While a welcome, the drafting seen to date is far from watertight. Common weaknesses include:

- The pro rata offer is the protection: the covenant may be satisfied by a bona fide offer for all lenders to participate on a pro rata basis, with no minimum lender consent floor or heightened amendment threshold. A technically compliant offer, therefore, closes out the covenant even if no lender participates.
- Narrow scope: the definition of “Liability Management Transaction” may be limited to uptier-style transactions that elevate the priority of a class of creditors, without capturing drop-downs or double-dips.
- Purpose qualifiers and carveouts: the blocker may apply only to transactions “designed primarily” to restructure the capital structure, and carve out transactions undertaken for a “bona fide expansion” of the business – language that invites debate at precisely the wrong moment.
- The blocker can be amended with majority lender consent: absent in its inclusion in the all-lender matters, the blocker (and the underlying definition) may be waived or amended with simple majority consent – meaning an ad hoc group with a bare majority could remove the blocker as part of the LMT itself.

As we have noted throughout 2026, blockers are only as effective as their drafting; please see [Worst, Better, Best: Omnibus LMT Blockers in European Leveraged Loans](#) for an in-depth analysis.

Anti-Cooperation Provisions: Pushed, and Pushed Back

Following the U.S. playbook, anti-cooperation language made an appearance in European term sheets this month, both explicitly and by the back door.

In its explicit form, the “entire agreement” provision purports to supersede the terms of any cooperation agreement, while any lender party to a cooperation agreement is deemed a defaulting lender, and is therefore disenfranchised,

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subject to “yank the bank”, and added to the list of transferees over which the borrower has a veto. We have seen such provisions flexed in a handful of deals over the past two years and, to date, we are not aware of an explicit anti-cooperation provision clearing the European BSL market. This month we saw “anti co-op” wording attempted on numerous occasions in initial financing terms, but flexed out in the final stages of syndication.

More open to interpretation, and more likely to survive syndication, is the back-door approach: an unduly wide definition of “sub-participation” that arguably captures any voting or cooperation-style agreement among lenders. When coupled with the restrictions applying to sub-participations such as borrower consent, pre-notification and information requirements, and restrictions on cross-tranche transactions, this could make entering into a cooperation agreement considerably more onerous, even if not expressly prohibited.

ESG Ratchets: Only for Those Who Participate

Future sustainability-linked pricing remains a recurring feature in sponsor-backed financings, where borrowers sought to keep the optionality of a sustainability-linked pricing adjustment subject to varying conditionality. This month saw a new twist: ESG margin adjustments drafted to apply only to lenders that participate in (or consent to) the ESG mechanism, rather than to the facility as a whole. Given that amendments relating to pricing are typically a structural adjustment, requiring the consent of each participating lender, this new drafting would appear a natural progression in ESG-related covenant terms. How this would be effected is yet to be seen and we would assume that participating lenders are rolled into a new tranche that can be considered a sustainability-linked loan.

Flex: Real Wins, but the Starting Point Has Moved

With highly aggressive starting terms, September was a busy month for flex, with the Covenant Review team engaged in repeated discussions with subscribers on successful pushback. Beyond the items highlighted above, among other terms, borrowers were required to:

- Restructure margin ratchets from three step-downs at quarter-turn deleveraging increments to a market-standard two step-downs at half-turn increments.
- Tighten MFN protection, including a reduction of the MFN threshold (from 100 bps to 50 bps), removal of the sunset, and removal of carveouts.
- Remove or scale back “Pick Your Poison” flexibility (including reducing a 200% dividends-to-debt toggle to 100%).
- Cap previously uncapped synergies, or reduce existing caps (e.g., from 25% to 20% of EBITDA), and remove “high watermark” provisions.
- Remove “no worse” prongs from ratio debt incurrence, reduce ratio debt baskets by half a turn, and remove fixed charge coverage ratio alternatives.
- Reduce starter amounts for builder baskets, remove zero floors, and tighten the threshold for uncapped restricted payments by half a turn.
- Add or extend J. Crew blockers (including to transfers of material intellectual property to affiliates that are not subsidiaries), and add Chewy protection.
- Remove the inside maturity basket, add ticking fees and call protection, and add further step-downs to the ECF and asset sale sweeps.
- Improve transfer provisions by adding a deemed consent period, removing concentration limits, and adjusting pre-notification requirements and minimum hold / transfer amounts.
- Tighten information undertakings.

That said, as in previous months, flex is incremental rather than transformative. “Universal Pick Your Poison” provisions (allowing capacity to be reallocated across almost all covenants, making it an unquantifiable moving target), 200% contribution debt baskets, specified asset sale baskets allowing assets generating 30% to 40% of

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EBITDA to be sold with proceeds upstreamed, snooze-you-lose provisions operating as deemed consent, and portability with minimal conditionality, all featured in launched terms this month. Where the starting point is a 4.5 Expected Score¹, even with some flex, lenders are left with a highly permissive document.

Amend and Extend: Watch the Mechanics

Amend and extend transactions continued this month, and as expected, scored materially better than new paper (evidencing “covenant creep” that we often discuss). A few points worthy of note:

- Refreshing pricing protections: practice was mixed, with call protection and margin guaranteed periods refreshed for a standard six months in some cases but not others, and MFN protection often not refreshed at all.
- Snooze-drag: lenders who do not respond (or who acknowledge but abstain) may be treated as cashless extending lenders or excluded from the vote, while non-consenting lenders may be prepaid from add-on proceeds or other permitted debt, or left in a stub tranche.
- Springing maturities: where a tranche is left outstanding, any revolving facility springing maturity provisions may negate the benefit of the extension.
- Portability a common ask on extended paper: a continuing theme this year, portability was seen added into extended paper on more than one occasion.
- Inflated reference figures: reference EBITDA and/or opening leverage levels in the term sheet set above the equivalent pro forma figures in the transaction lender presentation, building in immediate headroom across fixed baskets and leverage-based tests.
- Accumulated capacity: builder baskets that have been building since the original financing may now offer significant restricted payments capacity, with no resets being offered.

Special Reports

Covenant Review published market-driven topical reports and alerts in September, including the following:

- [Artificial \(Covenant\) Intelligence: AI-Related EBITDA Addbacks and Default Relief in European Loans and Bonds](#)
- [Worst, Better, Best: Omnibus LMT Blockers in European Leveraged Loans](#)
- [Out of Control? Event-driven Default Relief Under European Leveraged Loans](#)
- [CR European TrendLines: Monthly Documentation Score Sheet: September 2026](#)

CR Key Market Benchmarks

Covenant Review’s TrendLines set out key new-issue covenant benchmarks in Europe on a month-on-month basis. The following data is based on the last three months.

Loan Covenant Trend Summary Table												
As of: 30/09/2026	2018	2019	2020	2021	2022	2023	2024	2025	2026			Increase / Decrease
									Q1	Q2	Q3	
Credit Stats												
Percentage with Uncapped EBITDA Adjustments	21%	22%	21%	28%	22%	19%	15%	15%	7%	10%	4%	↓

¹ Completeness factors ranged from 79% to 90%.

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Accordion Free-and-Clear Tranche												
Avg. Hard Cap/Pro Forma Adj EBITDA (M&A-related)	0.77x	0.78x	0.88x	0.95x	0.86x	0.66x	0.83x	0.89x	0.75x	0.88x	0.86x	↓
Percentage with Hard Cap > 0.9x PF Adj. EBITDA	46%	38%	57%	75%	50%	33%	49%	58%	33%	52%	61%	↑
Percentage with Growers	83%	81%	100%	98%	97%	92%	97%	97%	100%	94%	100%	↑
Percentage with Inside Maturity	17%	25%	48%	60%	56%	38%	54%	61%	52%	54%	65%	↑
MFN												
Percentage with MFN Sunset	87%	85%	95%	98%	100%	83%	79%	66%	56%	38%	57%	↑
Count with MFN Sunset	68	62	40	86	32	40	70	67	15	19	13	↓
Percentage with MFN Carveouts	37%	52%	86%	88%	94%	71%	78%	66%	52%	36%	65%	↑
Fixed Amount Exclusion	5%	5%	12%	51%	56%	23%	43%	37%	33%	22%	48%	↑
Maturity	24%	45%	69%	73%	78%	54%	69%	54%	41%	28%	61%	↑
Acquisition	6%	10%	38%	53%	59%	31%	43%	29%	22%	22%	35%	↑
Mandatory Prepayments												
Percentage with Asset Sale Sweep Step-downs	24%	38%	64%	80%	81%	58%	75%	78%	70%	76%	87%	↑
Minimum Day-One Capped Basket Capacity												
General Purpose Debt	1.04x	1.17x	1.62x	1.99x	2.44x	1.62x	2.07x	3.14x	2.01x	2.40x	3.30x	↑
General Restricted Payments	0.25x	0.31x	0.39x	0.55x	0.70x	0.64x	0.57x	0.90x	0.64x	0.73x	1.24x	↑
Unrestricted Subsidiary Investments Capacity	0.73x	0.99x	1.07x	1.38x	1.64x	1.34x	1.44x	1.79x	1.47x	1.67x	1.99x	↑

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