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STATE OF THE MARKET: THE PREVALENCE (OR LACK THEREOF) OF XEROX BLOCKERS

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The Bottom Line™:

- Xerox's February 2026 liability management transactions put many investors on alert of the possibility of future drop-down transactions involving joint ventures.
- Many in the market anticipated the rapid development of language designed to prohibit similar transactions—so-called "Xerox blockers."
- In this report, we consider various potential Xerox blocker formulations and their prevalence in the current US broadly syndicated loan market.

Overview

Though the market viewed Xerox's February 2026 liability management transaction (LMT) as novel in many respects, at its core, the LMT was a drop-down in the guise of a joint venture formation (see figure below). Rather than transferring assets to an unrestricted (or non-guarantor restricted) subsidiary, Xerox instead transferred assets to a joint venture, bypassing an existing "J. Crew blocker"[1] as well as limitations under the existing credit agreement's negative covenants. For more details on this transaction, see Xerox: How Did Xerox Consummate the Joint Venture Financing Under the Terms of its Existing Term Loan Facility?

For many in the market, Xerox's LMT was a harbinger of similar JV drop-downs to come. At the same time, market participants anticipated—perhaps naively—the rapid development of contractual protections, or "Xerox blockers," designed to prohibit future Xerox-style LMTs.

Though we are not yet aware of any other JV-based LMTs as of the date of this report, we can at least begin to analyze the market on the question of its blockers. In this report, we assess a sample of thirteen recent draft credit agreements dating from March 2026 to May 2026 from the US broadly syndicated loan (BSL) market to ascertain the prevalence of Xerox blockers.

[1] J. Crew blockers are generally understood to mean a provision that limits or prohibits the transfer of specific assets to non-loan party entities. Most commonly, the "non-loan party entity" in question is an unrestricted subsidiary, though such blockers can also extend to non-guarantor restricted subsidiaries (this variant sometimes referred to as a "Pluralsight blocker"). For most transactions, the J. Crew blocker focuses primarily on transfers of material intellectual property (though this is not universally the case). For more on liability management transactions and the current state of play of blocker technology, see U.S. Liability Management Transactions: Quarterly Update Through Q1 2026 and Primer.

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What is a Xerox blocker?

As of the date of this report, the market has yet to coalesce around an established definition for what constitutes a Xerox blocker. However, there are several candidate blocker formulations:

- Expanding standard J. Crew blocker language to cover other non-loan party entities (including "Affiliates" of the borrower or issuer),
- Expanding the definition of "Subsidiary" to explicitly cover joint ventures or other non-majority owned entities under control of the restricted group, and
- Requiring JV investments to be for a "bona fide" business purpose (and *not* for purposes of liability management).

Of course, there are many other ways to address the underlying drop-down risks (including, for example, a flat prohibition against forming joint ventures), though we expect the three approaches above to be the most likely to appear in standard broadly syndicated credit agreements.

A survey of Xerox blockers in the current US BSL market

From here, we will assess to what extent any of the above-mentioned approaches on a "Xerox blocker" are being adopted by the new issue market. To this end, we have collected a sample of thirteen initial posting version credit agreements marketed to BSL investors in the United States. These cover the gamut of public and sponsored names, including jumbo M&A deals and more modest opportunistic transactions. Not included are transactions documented primarily via amendment (e.g., repricings, tuck-in acquisitions, and the like). This will help narrow the analysis to only those representing "new" credit documentation (or, in some cases, amended and restated facilities). Additionally, we have not included certain syndications (including those more akin to project financings), particularly where such financings are documented via more bespoke credit documentation.

The expanded J. Crew blocker

Of the thirteen credit agreements reviewed, only two had a J. Crew blocker drafted broadly enough to be considered a Xerox blocker. Of the remaining eleven credit facilities (1) ten were limited to traditional J. Crew blockers applicable only to unrestricted subsidiaries (or in one instance, a Pluralsight protection with respect to non-guarantor restricted subsidiaries) and (2) one lacked a J. Crew blocker entirely (though in this case, the documentation lacked the ability to create unrestricted subsidiaries in the first place).[2]

[2] Note, analysis here is focused on initial documentation and not flexed terms so as to get a better sense of what arrangers are currently going to market with.

Of the two transactions with expanded blockers:

- One featured a bespoke limitation on transfers to a Special Controlled Entity, defined as an entity that the restricted group owns a majority of the economic interests in or otherwise controls (and which is not otherwise a restricted subsidiary). This could pick up joint ventures, though note such JV would require *either* majority ownership (meaning a minority JV or 50-50 JV may not be captured) *or* control by the company (setting up a potentially more complicated analysis on whether a JV is "controlled" or not by the company).
- The other transaction featured prohibitions against "Affiliates" of the loan parties. The term "Affiliate" broadly covers any entity that is controlled by or is under common control with the restricted group. Joint ventures could fall within this definition depending in large part on the degree of control exercised over them (see discussion below on the expansion of "Subsidiary" definitions for more about how "control" may be assessed).

Notably, *none* of the reviewed blockers prohibited the transfer of material assets *specifically* to joint ventures. That said, this is not necessarily problematic; focusing the Xerox blocker too much on the specifics of that particular transaction risks creating overly narrow protection that fails to address the crux of the issue (in this case, the ability to transfer value away from the restricted group generally).

JVs = Subsidiaries

In Xerox itself, one of the points of failure was that the term "Subsidiary" was defined to *only* mean an entity whose voting stock is majority owned by the restricted group:

> "'***Subsidiary***' means, with respect to any Person, any corporation, partnership, limited liability company or other entity of which more than 50.0% of the voting Equity Interests are at the time owned by such Person. Unless otherwise indicated in this Agreement, all references to Subsidiaries will mean Subsidiaries of Holdings."[3]

Thus, in the definition above, *any* joint venture that is not majority owned (including 50-50 joint ventures) would not be considered "Subsidiaries" of the restricted group and therefore would not be subject to the limitations of either the negative covenants generally or the J. Crew blocker specifically.

Based on our analysis, none of the surveyed agreements reviewed defined "Subsidiaries" to per se include joint ventures. Even those agreements that did reference joint ventures in the "Subsidiary" definition were largely limited to JVs of which *more* than 50% of equity were owned by the restricted group (which would still result in excluding JVs with 50-50 ownership / minority ownership).

However, a little less than half of the transactions surveyed (six credit agreements[4]) included an *independent* control prong in the subsidiary definition—where the ability to direct management of an entity is sufficient to cause that entity to become a "Subsidiary" for purposes of the credit documentation, regardless of economic ownership. Whether this prohibits a Xerox transaction will depend on whether joint

[3] See https://www.sec.gov/Archives/edgar/data/108772/000119312523280007/d588006dex101.htm.
[4] One of the examples here also requires that subsidiaries by virtue of "control" also be consolidated for accounting purposes, adding an additional hurdle as to whether a "controlled" entity will be subject to the "Subsidiary" definition.

ventures are considered "controlled" by the restricted group. But the idea of "control" itself can be a complicated analysis. In most deals, "control" refers to the ability to (either directly or indirectly) direct management or policies of the subject entity, which is an inherently subjective standard. Assessing whether any particular JV partner has "control" (or whether *both partners* can be said to have "control") is therefore a question of paramount importance in assessing whether the JV is subject to covenant limitations.

If joint ventures are captured via such control prongs, then those JVs are subject to the negative covenants (and J. Crew blockers, if applicable). Thus, while they may make Xerox LMTs more difficult to enact, such expanded "Subsidiary" definitions may not outright prohibit such LMTs depending on how protective (or not protective) those covenants end up being.

Bona fide investments only

Blocker language designed to limit investments in joint ventures to "bona fide" transactions has seen the least uptake in the current market. None of the agreements reviewed included any express requirement as either an override or as a limitation applicable specifically to a joint venture basket (though at least one included an omnibus blocker which serves as a more global prohibition against LMTs).

We note also that relying on "bona fide" language is a common fallback when it comes to drafting lender protections, but it is also, unfortunately, inherently ambiguous and subjective. Exactly *what* a "bona fide" investment is rarely (if ever) defined. Thus, in many cases, the determination of what actually constitutes a bona fide investment or bona fide business purpose falls squarely with the borrower itself.[5]

Conclusion

As of the date of this writing, formal Xerox blockers remain a rarity in the BSL market. Of the few examples seen thus far, the best approach arguably is the expansion of the J. Crew blocker language to cover affiliates (with the caveat that whether a joint venture constitutes an "affiliate" may be a tortuous analysis of whether the company "controls" the joint venture).

Attempts at expanding subsidiary definitions may be a more popular approach overall, though this appears to be driven more by the fact that subsidiary definitions have often included a control prong in the past (and it is not clear if such language is being pushed as a targeted response to Xerox). Moreover, the concept of "control" itself can be somewhat wishy-washy, keeping the door ajar for future maneuvering.

— *Covenant Review*

[5] See "Stonegate Blocker" Ropes In Asset Sale LMTs.

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