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Global Trends in Leveraged Lending

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The year 2015 saw periods of intense and robust deal flow with stable credit markets, but also periods of malaise and instability during which credit markets were overwhelmed by a "maelstrom of fears". Macro, market and regulatory challenges have caused the leveraged loan market to be at times a deep and liquid haven for prudent investors, but also a market in which investors have sold off heavily when faced with spikes in risk or relative value opportunities. The regulatory environment has reduced incentives for bank market makers to hold significant loan inventory and investors have faced periods of illiquidity for harder-to-trade loans. Longer term principal debt investors have, in turn, taken advantage and driven market terms during the most intense periods of dislocation. We discuss below specific trends in leveraged lending from 2015.

1. Maelstrom of Fears

The end of the Fed "put" finally occurred. Since 16 December 2008, the Fed had kept its benchmark interest rate (i.e., federal funds target rate) at a range between zero and one-quarter percent. "Liftoff" (as the Fed called it) occurred on 16 December 2015, but in the teeth of softness in manufacturing and mixed signals on US growth and employment. Did "liftoff" play into investor fears that there are only unfavourable monetary headwinds ahead? Yes. Was "liftoff", from a purely mathematical perspective, relevant for US dollar leveraged loans? No, virtually all US dollar loans have LIBOR floors of 1.00%, and typical LIBOR periods have rates below that floor. For certain credit strategists, monetary policy fears were overplayed by the credit markets and the Fed's measured approach to the unwind of its easy-money policies was predictable in light of macro-economic conditions (e.g., solid growth, low to moderate inflation and strength in employment numbers).

The US credit markets reopened for business after the summer and, for only relatively brief periods, had stability. The high-yield market was a "slow-moving train wreck" during that period, as observed by Bank of America Merrill Lynch credit analysts. The energy sector led the charge; heavily indebted energy companies faced heavy selling (as has been widely observed, it is expected that energy sector default rates will materially increase in 2016 given sustained low oil and gas prices and challenging conditions for attractive asset sales).

Concern over the financial health of commodity businesses and the impact of rate rises, together with numerous other fears (e.g., combusting emerging markets and China's declining growth, political uncertainty, regulatory overhang, continued concerns about a Greek euro exit, Middle East instability, etc…), led to a spiral of pessimism in the last quarter of 2015. The leveraged loan market experienced a significant slowdown and material upward repricing, reflecting, in part, moderate price contagion across credit markets in the fourth quarter. Several significant deals were unable to be sold within their predicted price bands and/or had to be restructured or otherwise modified in order to be sold. Certain well-publicised deals were pulled from the market and held over into 2016. Upward price flex massively outpaced reverse (i.e., pro borrower) flex in the fourth quarter. However, although the markets are signalling a challenging 2016 for leveraged finance, views remain divided over whether the financial market turbulence signals the onset of a recession. Certain long-term, extremely successful, debt investors have aggressively taken advantage of the sell-off to increase exposure to credit assets.

2. Loan Volumes

Over the 12-month period, leveraged loan volumes in the US in 2015 fell by over 17% compared with 2014. This was coupled with a drop in acquisitions by private equity companies and a fall in CLO issuance. Nonetheless, 2015 was still the third best year on record for the US leveraged loan market. European volumes were broadly flat, likely as a result of having less exposure to commodities, benefits flowing from European quantitative easing and an increase in new money deals (mainly in the corporate sector).

Global leveraged loan volumes fell by around 13% to just over USD $1 trillion. Overall leveraged lending volumes in North America in 2015 are reported to have declined by over 17% from 2014 (i.e., totalling around USD $780 billion), but still represented the third best year by volume on record. The most active sectors were technology, healthcare and retail. The volume of institutional term loans (such as TLBs) was reported to be down 36%, but the volume of pro rata loans (revolving credit facilities and amortising term loans (such as TLAs) more likely to be provided by banks) rose 1%. Reports indicate that US second-lien loan issuance more than halved, falling to USD $13 billion from USD $28 billion in 2014, and middle-market leveraged volumes in the US dropped by around 30% to USD $142 billion. Sponsor US-leveraged loan issuance also dropped by 17% to USD $253 billion, most of which was not related to new LBOs. US high-yield volumes were reported to have declined by around 18% from 2014 levels, totalling USD $253 billion, and there was a drop in average rating with around 40% of issuers having a single-B rating. However, US investment-grade corporate bond debt increased by 8% to USD $1.2 trillion in 2015, the best year ever.

In the US primary market, average contractual loan spreads for new issues in the last quarter of 2015 were reported to be 400 bps for large corporate loans and 533 bps for middle-market deals. Average new-issue yields for large corporate issuers were nearly 6% and over 7% for middle market deals. This compares with average European contractual loan spreads at the end of the year reported to be just over 460 bps for sponsor-backed Term Loan B (i.e., so close to US pricing).

European leverage loan issuance was reported to total USD $216 billion for 2015 but was down from 2014. Some reports suggest the drop was around 20% whereas other reports suggest there was almost no drop. AFME reports suggest the drop was down over 15% but other reports suggest there was almost no drop. Volumes were upheld partly due to the increase in sponsor and corporate new money to USD $100 billion. However European high-yield volumes are reported to have dropped by around 14% from 2014 to approximately EUR 90 billion and covenant quality also continued to drop. Analysis earlier in the year by rating agencies showed that more than half of European transactions financed by leveraged finance by volume were financed by high-yield bonds in 2013 but this trend reversed as loan markets strengthened and, in 2015, Term Loan Bs overtook high-yield bonds as the instrument of choice.

Asian leveraged loan issuance remained a small portion of the global-leveraged loan issuance. High-yield issuance dropped 32% year-on-year to just under USD $17 billion, comprising mostly Asian currency bonds.

3. Fourth Quarter Syndication Challenges

Secondary market prices for multi-quote institutional term loans in the US dropped to around 93 cents in the dollar towards the end of 2015, close to prices in 2011, with oil and gas loans (apart from downstream loans) being bid much lower. The drop in secondary market prices in the US made it harder for banks to syndicate new deals. The secondary market for European loans was much stronger, with the European Lev40 finishing the year at 99.13.

Terms had to be flexed to make them more lender-friendly (reverse flex became virtually non-existent). Discounts were offered, loans downsized, covenants tightened and pricing increased. A USD $820 million first-lien portion of loans to finance the acquisition of Full Beauty Brands by Apax Partners was reportedly sold at 93 cents, and a USD $345 million second-lien tranche was reportedly offered at 87 cents in Q4 of 2015. The market volatility led to a number of deals being financed by large commercial bank groups with very little debt being initially syndicated. The difficult markets forced certain banks to pull out of the financing of the approximately USD $5.5 billion buyout of software firm Veritas by Carlyle in November, and the Veritas deal was held over into the new year.

Due to the choppy markets, the difference in interest rates and the narrowing of pricing between the European and US markets, some issuers switched from the US markets to Europe to raise debt. Swissport's proposed dollar term loan was switched for a EUR 660 million term loan governed by New York law, and Azelis added a EUR loan in the euro equivalent of USD $135 million to its proposed all USD term-loan package. Several US blue chip companies also issued corporate bonds denominated in euro in the European markets in 2015. They were able to lock in lower interest rates and swap euros to dollars. However, swap costs are reported to have increased by 46 basis points in 2015 to their highest levels for three years, and this may dampen the popularity of this trend. There was a significant drop in EMEA borrowers seeking to syndicate loans in the US as interest rates remain low in Europe.

Volatile market conditions offered opportunities for direct lenders (i.e., those lenders looking to buy and hold, and who are less immediately dependent on demand in the secondary market). Direct lenders are now looking at bigger deals which they can sign on a club basis. In Europe Hayfin, ICG, Highbridge and Sankatay provided a USD $400 million loan to back Chiltern's acquisition of Theorem Clinical Research. Goldman Sachs' mezzanine/junior capital fund was particularly active in the US market in the fourth quarter. Direct lending financing packages in Europe continue to increase in sophistication and complexity.

4. Liquidity and CLO Issuances

US CLO issuance in 2015 was reported to be USD $98.5 billion, representing a drop from the 2014 level of USD $124 billion, but remained the third highest year ever. European CLO issuance was EUR 13.8 billion, up slightly from EUR 13 billion in 2014; as a general matter, weakness in European CLO issuance remains a structural limitation to the success of, and liquidity in, the European markets.

US CLO issuance was particularly strong in the first half of the year, averaging nearly USD $10 billion a month. A variety of factors combined to make the second half of the year much different, as activity dwindled to an average of just USD $6.3 billion a month. Issuance in 2016 is expected to extend the trend from the second half of 2015, with full-year estimates in the range of USD $60 billion to USD $70 billion.

A meaningful portion of the reduction in issuance may be attributable to the lack of supply of loans resulting from leveraged lending guidance and general credit concerns, both of which are expected to continue to impact the market in 2016. In addition, the secondary market for CLO equity declined, taking the new issuance market with it, and there remains a relative scarcity of AAA investors in the market, despite relatively wide spreads in the AAA tranches (in the range of 150–165 basis points). In turn, these pricing levels have focused equity investors on risk retention-compliant structures that allow for repricing of the AAA tranche following the expiration of the typical two-year non-call period (risk-retention rules for CLOs become effective on December 24, 2016, meaning that a repricing of a CLO that initially closed on or after December 24, 2014 would be impacted). According to Standard & Poor's Leveraged Commentary & Data ("LCD"), approximately 27% of CLOs closed in 2015 were structured for risk retention, though this figure includes those with manager fee rebates and other "incentives" to implement a compliance strategy. Investor risk appetite declined markedly at the end of 2015, a trend that is continuing into the early part of 2016. It will be interesting to watch CLO tranche pricing in 2016 to see if risk retention and other features will increase the demand for conservatively structured AAA tranches – thereby tightening spreads – or whether the scarcity of AAA investors will continue to drive spreads wider to the point that banks and other investors that face significantly increased hurdle rates due to the Basel III leverage ratio (which does not reflect credit quality thereby disproportionately impacting demand for highly rated securities) will re-enter the market.

Loan funds outflows in the US were USD $21 billion, with USD $5.4 billion exiting in December as investors looked to de-risk. Whilst US CLO assets under management increased to USD $427 billion, US loan mutual fund and ETF assets under management fell to USD $115 billion at the end of 2015. European CLO assets under management fell slightly. The CLO share of US institutional loans has increased slightly from 2014 to just over 50%, whereas the share of loan mutual funds and ETFs has fallen to 13%. IPO prepayments in the European market and elsewhere further reduced the paper available for CLOs.

For the third year running, there was a net outflow from US high-yield funds. There was significant sell-off of high-yield assets amid market volatility in December, and high-yield issuance that month fell to USD $3.5 billion with higher yields. As mentioned above, moderate pricing contagion occurred across credit markets during the fourth quarter.

5. Rise in Corporate Acquisitions and Sponsor Exits but Drop in Sponsor LBO Activity

In the US, new money deals were reported to be up 3%. Refinancing volumes were down 31%, with a particular drop in refinancings using institutional debt. In Europe, new money deals were up, representing just under half of European leveraged finance deals, and refinancings were down by over 25% to just over USD $113 billion.

Whilst US non-LBO issuance was up significantly, US LBO issuance was reported to have fallen by 22% in the US to USD $73 billion, representing just under 10% of the US-leveraged loan market as sponsors struggled to match the prices offered by strategic buyers. LBO issuance in Europe remained flat. Corporate M&A leveraged loans increased significantly in the US, up 49% to well over USD $250 billion and in Europe by 35% to USD $122.3 billion.

Sponsor buyout activity has remained fairly flat since 2010, although world economies have recovered significantly since the financial crash. A report by one sponsor suggested that the number of sponsor LBO transactions (rather than the volume) was less than 5% more in 2014 than in 2010. In 2015, strong stock markets increased sale and IPO valuations, and the abundance of capital and cheap credit resulted in steep competition, which drove up prices for targets and dampened LBO activity. Average purchase price multiples in the US were reported to be just under 10 times for broadly syndicated loans and around 10.6 times for middle-market deals (levels often seen at the height of a credit boom). Regulatory pressures on banks and a concern to avoid overleverage has limited the average leverage for LBOs to just below six times and slightly less for large LBOs or corporate deals. The average equity check for sponsors has increased to nearly 40% (compared to 30% before the financial crisis), which is likely to reduce returns for sponsors during this investment cycle.

Recent research has shown that high target valuations and competition is preventing a growth in LBOs that would otherwise occur from the availability of cheap credit and improving investor confidence as sponsors do not want to overpay despite the pressure to invest. As a result, equity dry powder is increasing which, in turn, triggers more competition for attractive assets. In contrast, corporate strategic acquisition activity is not so impacted by higher prices as they often require lower rates of return and can exploit potential synergies more easily. Accordingly, corporate buyers were more willing to buy at higher valuations in 2015.

Many funds have concentration constraints on the relative amount that a fund can make in a single portfolio company (e.g., often 15%). The increasing size of the equity check required for an acquisition, these fund limitations and the reluctance of sponsors to invest in consortia after the credit crunch all operated as a constraint on the size of the deal that sponsors would pursue in 2015. Sponsors with greater fund flexibility (e.g., often the most well-known and seasoned top-tier sponsors) and/or the ability to round up a club of investors (whether institutional/pension investors, fellow PE funds and/or strategic corporate partners) had a strong competitive edge in 2015.

On a positive note, the high valuations meant that it was another excellent year for exits with strong returns, such as through an IPO or sale to a trade buyer. For instance, Worldpay Group plc, owned by Advent International Corp. and Bain Capital, raised over GBP 2 billion in its London listing. Recent reports suggest that the median holding period for exits in 2015 was close to six years rather than the three-year period before the credit crunch (of course, dividend recaps have often allowed sponsors to take money off the table during this period).

6. Cov-lite Loans Down Other Than for Institutional Large Deals

Overall cov-lite loan issuance dropped in the US to USD $337 billion, but still represented the third biggest year on record. However, nearly three quarters of institutional loan issuance in the large corporate market was cov-lite, up slightly from 2014.

In Europe there was a rapid increase in cov-lite issuance in 2014 but (save for larger loans) issuance trended downwards in 2015, and "cov-loose" loans appear to be the new norm. Over half of all rated European TLBs were cov-loose in 2015, with the majority of these having only a leverage maintenance covenant, and about a quarter of such loans were cov-lite. However, just under half of all rated loans over EUR 500 million were cov-lite. Investors appear to be more willing to accept cov-lite terms for loans which are large and liquid, allowing lenders to trade out if the borrower's financial performance deteriorates. Rating agency research has shown no direct correlation in Europe between the prevalence of cov-lite and the credit rating of the borrower. The EUR 1.54 billion loan for Apollo Global Management's acquisition of Verallia from Saint Gobain was the largest European new money cov-lite loan for a new issuer.

The slowdown in cov-lite in Europe is not the whole story. Although a leverage maintenance covenant still usually applies to term loans or drawdown facilities, the actual level of protection afforded by financial covenants in Europe has generally weakened in relation to headroom and EBITDA add backs. Covenant headroom is now 30–35%, and there is uncapped ability to net cash and/or increased EBITDA add-backs. If, as is common, the initial leverage level is just below six times, in order to give 30–35% headroom the leverage covenant will need to be set at such a level that the borrower may increase its leverage well above six times and still meet the covenant. Similarly, if the borrower has significant opening cash and cash equivalents and is permitted to net this off against its debt, even if the cash is trapped (e.g., the cash is in a jurisdiction which would impose significant cash taxes upon repatriation of the funds to the borrower), the borrower can nonetheless meet the leverage covenant even though its EBITDA may have dropped significantly. Add-backs to EBITDA are also increasing. Previously pro forma add-backs for synergies and cost savings associated with acquisitions and likely to be realised within 12 months were permitted but were capped, whereas these add backs are now sometimes uncapped or capped per acquisition. Also, liberal add-backs for restructurings, integration, project cost savings and other matters are now becoming common.

Increasing EBITDA by add backs will not only allow a borrower to meet a financial covenant but will also increase grower baskets in negative covenants set by reference to EBITDA and, therefore, weaken other protections. Where the loan is cov-lite, the only restrictions on matters such as debt incurrence, acquisitions, payment of dividends, investments and prepayments of junior debt will be through the negative covenants. In Europe, basket capacity in negative covenants such as debt incurrence, investments and liens was typically capped by a fixed cap, but grower baskets became much more common in 2015. Initially, European grower baskets were typically the greater of a fixed amount and a percentage of total assets, but baskets that are the greater of a fixed amount and a percentage of EBITDA are now becoming very common.

EBITDA cures have crept into the European market. In Europe, a borrower was typically required to apply a cure amount to reduce debt. However, it has become very common to permit the borrower to add the cure amount to EBITDA and not require it to repay debt, as is common in the US. Like the US, EBITDA cures may be limited to three to five times over the life of the facilities. However, unlike the US, overcures are often permitted and some sponsors made use of this permission in Europe last year. An overcure allows a sponsor to effectively cure for potential future financial covenant breaches and side step the usual limits on the frequency of cures.

7. Terms – Convergence Continues

The growth in cov-lite and grower baskets are just two examples of the continued convergence in Europe between high-yield bond terms and loan terms and between the US loan market and the European loan market in 2015 particularly with regard to flexibility to raise more debt or refinance. There has been an increase in incremental debt capacity, with rating agency research indicating that around 60% of European rated loans in 2015 incorporated capacity to incur incremental facilities. The ability to incur incremental debt is usually subject to satisfying a leverage test and, if secured, a secured leverage ratio ("ratio debt test") plus, if a facility is subject to financial covenants, pro forma covenant compliance. Such research also indicated that, on average, borrowers can incur aggregate incremental facilities up to around 0.5 times EBITDA, but this capacity remains much lower than the average capacity that a high-yield bond issuer would have to incur additional debt, which was estimated to be 4.2 times during 2015. Freebie baskets (i.e., which permit the borrower to incur debt up to a capped amount even if it cannot meet the relevant leverage test for debt incurrence) are also becoming common in Europe. Sidecar incrementals allowing debt to be incurred under a different document have also been seen in Europe; European borrowers also have more flexibility to incur refinancing debt by refinancing all or part of their existing facilities with new tranches under the existing facilities or new refinancing debt.

In the US, it is usual to prevent the borrower from incurring an incremental facility that has a yield in excess of 0.5–1% of the yield on the term loan for a sunset period of 12–18 months unless the yield on the term loan is correspondingly increased, which provides some repricing protection and control on the incurrence of expensive pari passu debt. The sunset may be removed under a syndication flex so this MFN (most favoured nation) protection lasts for the life of the facilities. In Europe, this provision is not so consistently applied and the sunset may be six months, and/or a flex may not apply.

The flexibility to incur an incremental facility may lead to some risks in Europe that are not mirrored in the US, as a result of the European bankruptcy law generally being less favourable to creditors than Chapter 11. Where the incremental debt is to be secured on the collateral for the existing facilities, it may be necessary to release the existing security and re-grant it for both the existing facilities and the new incremental facility on a shared basis, as second ranking security may not be recognised as a concept in some European jurisdictions. This may lead to the start of new insolvency hardening periods of potentially several years in duration. It is also usually necessary for the holder of the secured incremental debt to be party to the intercreditor agreement, as it may not be possible to sell the collateral free of the incremental debt on an enforcement under European bankruptcy laws unless the holder has contractually agreed to release the debt on an enforcement subject to fair value protection. Similarly, no stay on enforcement may apply under local bankruptcy laws and so a contractual stay and payment blocks may be required.

The increased flexibility in loan agreements to incur debt has also led to a focus by European lenders on the implications of the borrower borrowing unsecured debt if the unsecured lenders are not subject to the intercreditor agreement or incurring structurally senior debt or the existence of unrestricted subsidiaries in the group. Such debt may restrict lenders from being able to enforce a single share pledge at the top of the group and sell the group (a single point of enforcement sale) which is often the favoured strategy given the lack of an equivalent to Chapter II in Europe. In some cases, there may be a limit imposed on borrowing of unsecured debt which is not regulated by an intercreditor agreement, and/or a limit on borrowing debt in subsidiaries which are not borrowers or guarantors of the secured facilities. The borrowing of incremental debt by guarantors may also raise challenges. If, as is common in Europe, upstream and cross-stream guarantees and security are limited by local law to an amount less than the total secured facilities, then the claims of unsecured creditors may reduce the share of recoveries of secured creditors in a bankruptcy.

In Europe, a change of control triggers a mandatory prepayment which can only be waived by all lenders, unlike in the US, where a change of control triggers an event of default waivable by the majority lenders. The European mandatory prepayment requirement is sometimes being replaced by the put option seen in European investment-grade deals, only requiring prepayment if a lender requires it (or sometimes only if the majority lenders require it). The change-of-control provisions may provide that a change of control occurs if control is not retained by permitted holders of equity (which may include a wide class of affiliates and other persons). Alternatively, a change of control may only be triggered when someone other than permitted holders gains control. Portability is occasionally seen in Europe, but is not common.

European loans typically limit acquisitions by reference to a fixed cap which can sometimes be increased, where the acquisition is funded by retained excess cash or new equity. However, it is becoming common for acquisitions to be limited primarily by a leverage ratio. This means that if the borrower can meet the leverage ratio to make the acquisition, and to incur more incremental debt, then it can carry out a buy-and-build strategy without refinancing. Such flexibility can allow the borrower to materially change the business, mix of currencies in which cash is generated and structure of the group. This flexibility has been quite commonly permitted in the US market. Similarly, European loans now typically allow a borrower flexibility to refinance all or part of its existing loans with new tranches under its existing facilities or new refinancing debt with no greater security or guarantees and no shorter maturity.

Other features of the US market, such as asset-based or EBITDA-based grower baskets, permission to incur acquired debt or contribution debt and ability to reclassify debt into different baskets are being seen more often in the European market. The restrictions on dividends and other restricted payments, acquisitions and disposals in European loans vary with the larger loans often following the high-yield market and the smaller deals continuing to follow the more conventional European approach.

Cross-acceleration and cross-payment default sometimes replaces the classic European cross-default. Under the classic test, an event of default is triggered if there is a default under other debt even if the creditors of that other debt have taken no action in order to give the lenders a seat at the table at an earlier stage.

8. Leveraged Lending Guidance

The year 2015 saw a harsher period in the enforcement of the March 2013 leveraged-lending guidance (a jointly issued set of regulatory guidelines for regulated banks in the United States). After a February conference call jointly hosted by the regulators (i.e., the Federal Reserve, Office of the Comptroller of the Currency and the FDIC) that attracted over 1,500 market participants, during which regulators answered questions, the regulators brought a renewed vigour to their enforcement. The regulators have indicated that "examiner red flags" or weak loan characteristics will lead to deeper probing of credits. While the existence of red flags does not mean death for the credit (i.e., it does not automatically lead to "non-pass" or unfavourable ratings by the examiners), the regulated banks nonetheless confront the real risk that too many unfavourable ratings will lead to significant enforcement penalties from regulators. This cold wind has been blowing in the face of the leveraged lending markets (that have at times been overheated because of easy monetary policy) for some time, but, for many regulated banks, 2015 saw this cold wind turn into an arctic blast. Non-bank lead arrangers, who are not regulated, theoretically obtain a regulatory arbitrage at the outer envelope of the leveraged-lending guidance. The year 2015 saw a flood of opportunities for these non-bank entities, but limited capital and other constraints meant that these unregulated entities could not replace the banks. The year 2015 underscored that the scale and depth of the unregulated market is simply too small to meaningfully replace the regulated banks and that, at most, non-regulated entities will expand their market share by several percentage points (but on a selective basis). A question for 2016, and for the regulators going forward generally, is whether the guidance and/or the enforcement of the guidance is appropriate in a normalised interest rate environment. At a high level of generality, the leveraged lending guidelines (which are a counter-cyclical stabiliser) have less compelling policy logic and/or necessity if credit markets are constrained and/or credit markets are appropriately priced in a normalised yield-curve environment. The leveraged lending markets continue to face into 2016 the twin dangers of overzealous enforcement and/or regulatory creep.

The Bank of England undertook a review of the UK leveraged-loan market in 2015, focusing on underwriting standards. The Financial Policy Committee of the Bank of England announced in March 2015 that the UK banking system appeared to be resilient to stress in the leveraged-loan market, and that action was not needed to mitigate risks in the market at the time. Noting that underwriting standards might continue to loosen, which would increase the risks for major banks in stressed and illiquid market conditions, the Committee announced that it would continue to assess the standards on a regular basis.

9. Bail-In

In Europe, certain Member States chose to phase-in the requirement to include bail-in clauses in loan documentation governed by the laws of a non-EU country which, under the EU Bank Recovery and Resolution Directive, had to be implemented by 1 January 2016 at the latest. Creditors of EU banks need to agree to and recognise that liabilities of the banks may be subject to bail-in (i.e., the liability may be subject to write-down or conversion into equity if the bank goes into resolution). The UK Prudential Regulation Authority first applied the requirements to unsecured debt instruments, additional Tier-1 instruments and Tier-2 instruments from February 19, 2015 (phase 1), and to all other relevant liabilities from January 1, 2016 (phase 2). The UK Financial Conduct Authority applied the requirements to all relevant liabilities from January 1, 2016. However, late in 2015, both regulators took a step back and have allowed firms, on application, to delay the application of the requirements to relevant liabilities other than unsecured debt instruments, additional Tier-1 instruments and Tier-2 instruments to June 30, 2016. To obtain the waiver, firms must show that compliance would be impracticable, mere inconvenience being insufficient. Banks, their clients and the buy-side are still grappling to understand the scope of the requirements.

10. Investment Grade Loans

The investment-grade market remained strong in 2015. The volume of EMEA-syndicated loans overall matched that of 2014, and US investment-grade lending volume was nearly USD $873 billion, the best year on record. High-grade acquisition financing increased as corporates took advantage of low interest rates and strong liquidity. Refinancings fell by a quarter as many companies had already refinanced, although companies continued to take advantage of favourable market conditions to do amend-and-extend deals, and some US blue chips chose to take advantage of the market arbitrage and raise euros in Europe.

AB InBev borrowed USD $75 billion (including USD $40 billion of bridge loans) to finance the purchase of SABMiller from 21 relationship banks, which was the largest deal of the year. Teva Pharmaceuticals also borrowed USD $31.5 billion to acquire Allergan Generics and refinance an existing credit facility. The financing included a USD $22 billion bridge loan and a USD $6.75 billion equity bridge loan from the underwriting banks. Other large acquisition financings include Air Liquide's USD $12 billion bridge loan to acquire Airgas, Royal Dutch Shell's GBP 10.07 billion bridge loan to acquire BG Group, ChemChina's EUR 6.8 billion bridge loan to buy Pirelli, Deutsche Annington's EUR 6.25 billion loan to acquire Gagfah, Borealis's USD $4.7 billion loan to acquire Fortum, Solvay's USD $5.8 billion loan and Heidelberg Cement's USD $4.4 billion loan.

11. Trends in the Asia Pacific Loan Market

As with other regions, unease based on the weaker Chinese economy and subsequent currency devaluation caused a substantial slump in the Asia Pacific loan market (e.g. Japan). Asian (e.g. Japan) syndicated loan volume and related fee revenue was down; in part reflecting lower M&A activity across the region and strong competition for deals among the banks, especially among blue chip names. However, despite the market uncertainty around China's economic growth prospects, Chinese lending led regional loan volumes; e.g., the biggest Chinese take-private deal was the USD $9.3 billion LBO of Chinese internet firm Qihoo 360, which was backed by a USD $3.4 billion-equivalent jumbo (single lead arranger) loan from China Merchants Bank. Macau, the Philippines and Taiwan showed positive growth. With volumes 40.4% lower compared to 2014, Australian loans totalled USD $79.9 billion from 186 transactions in 2015; a noteworthy deal was Macquarie Bank's two-year USD $4.3 billion bridge loan to fund the acquisition of ANZ's vehicle finance portfolio Esanda, marking the largest loan in the region in the fourth quarter. Overall Japanese syndicated lending for 2015 reached USD $225.8 billion from 2,054 deals, a 1.6% increase in proceeds and a 3.1% increase in deal count compared to 2014. The number of issuances marked the highest total since 2008. In a noteworthy trend, Japanese loan cross-border transactions for non-Japanese borrowers significantly increased in 2015, with USD $11.7 billion from 45 deals, compared to USD $5.6 billion from 40 deals in 2014; a highlight being Ichthys LNG Pty Ltd's USD $5 billion deal arranged by Bank of Tokyo-Mitsubishi UFJ, Mizuho Bank, and Sumitomo Mitsui Banking Corp in September.[1]

Endnote

1 Figures taken from reports by Thomson Reuters and AFME.

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