

The escalation of hostilities following US-Israeli strikes on Iran on 28 February 2026 and subsequent Iranian retaliation across the GCC is forcing lenders and borrowers to reassess the operation of their finance documentation. The GCC loan market has experienced credit stress in prior cycles, including during COVID-19. The present disruption differs in that it threatens the physical infrastructure on which many regional borrowers depend, including shipping routes, port operations and airspace.

You can refer to our recent notes on [Beyond Force Majeure: When Does a Conflict Actually “Frustrate” a Contract, What Is My Strategy, and What Questions Should I Ask?](#), [Refusing Transit Through the Strait of Hormuz](#) and [Force Majeure and Material Adverse Change – A Reminder of the Key Points](#).

This note considers the operation of material adverse change (MAC) provisions and drawstop mechanics arising in the GCC loan market and examines how lenders and borrowers should analyse them under English law-governed Loan Market Association (LMA)-form facility agreements (given their prevalence in this market).

## 1 – The Disruption and Its Relevance to Credit Documentation

On 28 February 2026, coordinated US-Israeli strikes targeted Iranian military infrastructure and senior leadership. Iranian retaliation has included attacks across the GCC and warnings that the Strait of Hormuz may be closed to navigation. War-risk insurance for transits has been withdrawn or materially repriced, and commercial shipping through the strait has fallen sharply. The strait carries roughly 21% of global oil supply and a substantial share of global liquefied natural gas (LNG) production. The disruption has already affected regional energy infrastructure, including the temporary halt of production at Qatar’s Ras Laffan LNG complex following a drone attack on 2 March.

For the GCC loan market, the immediate legal significance of this disruption lies in the borrower sectors most affected. Aviation, logistics, energy services, construction, infrastructure and hospitality are all heavily represented in regional credit portfolios and all face simultaneous pressures from disrupted transport routes, insurance withdrawal, supply chain interruption and working capital stress.

These developments provide the factual matrix against which parties must analyse the operation of MAC provisions and drawstop mechanics under English law facility agreements.

## 2 – Can Lenders Accelerate Under MAC Clauses?

This note uses the market shorthand “MAC clause” to describe facility agreement provisions that operate by reference to a “material adverse effect” (MAE) definition, and uses “MAE” where the defined term itself is in issue.

The current conflict does not automatically justify acceleration under MAC clauses in most GCC facilities. Whether a MAC provision has been breached depends first on the wording of the relevant MAE definition.

The LMA-form documentation contains a broad baseline formulation referring to material adverse effects on a borrower or its group’s business, operations, property, condition (financial or otherwise) or prospects, the ability of obligors to perform their obligations under the finance documents, and the validity or enforceability of those documents.

In practice, however, MAE definitions are frequently negotiated along a spectrum ranging from this broad formulation to narrower tests focused only on financial condition, covenant compliance or the obligors’ ability to meet payment obligations.

Whatever the drafting, English law requires a lender seeking to rely on a MAC breach to demonstrate a borrower-specific deterioration that is material and not merely temporary.

### The English Law Framework

The starting point remains the decision of Blair J in *Grupo Hotelero Urvasco SA v. Carey Value Added SL* [2013] EWHC 1039 (Comm) (*Grupo Hotelero*). The case is the leading authority on MAC clause construction in loan agreements governed by English law. The judgment provides the framework against which lenders and borrowers assess whether an MAE has occurred.

The following principles are commonly drawn from the court’s reasoning:

- MAC provisions are construed according to ordinary principles of contractual interpretation.
- An assessment of a borrower’s financial condition normally begins with its financial information. External economic or market conditions alone will not ordinarily establish a deterioration in financial condition.
- The assessment is not confined to financial statements and may take account of other evidence demonstrating a material deterioration in the borrower’s position.

- A change will only be material where it represents a significant deterioration in the borrower's financial condition, potentially affecting its ability to repay the relevant loan, and the change must not be merely temporary.
- A lender cannot rely on circumstances of which it was aware at the time of contracting unless those circumstances have worsened in a manner materially different in nature.
- The burden of proof rests on the lender seeking to rely on the MAC clause.

These principles set a deliberately high threshold for MAC-based acceleration, reflecting the commercial consequences of accelerating a viable borrower. Although the clause in *Grupo Hotelero* was confined to financial condition, and each case will turn on the precise drafting of the MAC provisions, the court's analytical approach is commonly applied when assessing wider MAE provisions in LMA-based facilities.

It is also worth noting the Privy Council decision in *Cukarova Finance International Limited and another v. Alfa Telecom Turkey Ltd* [2013] UKPC 2, in which the MAC event of default applied where there had been "any event or circumstance which in the opinion of [the lender] has had or is likely to have a material adverse effect on the financial condition, assets or business of [the borrower]". The Privy Council upheld the decision of the court below that this clause required only that the lender hold an honest and rational belief that such an effect had occurred. Such subjective lender opinion-based clauses are common and can provide a more flexible basis for invoking a MAC.

## Application to the Current Environment

Three aspects of the present disruption are particularly relevant when lenders assess whether a MAC event of default has occurred:

### The Awareness Issue

Many GCC credit agreements were entered into in 2024 and 2025 against a background of documented geopolitical tension between Iran and Israel, including the June 2025 conflict and the reimposition of UN sanctions on Iran in September 2025.

Under the approach reflected in *Grupo Hotelero*, a lender cannot rely on circumstances of which it was aware at the time the facility was entered into. Borrowers may therefore argue that geopolitical risk in the region formed part of the background against which the transaction was agreed and was priced into the original facility terms. A lender seeking to rely on a MAC clause would need to demonstrate that the current escalation represents a deterioration materially different in nature from the geopolitical environment that existed at signing, rather than merely an intensification of an existing risk.

### The Temporariness Issue

English courts have historically been reluctant to treat short-term deterioration as a material adverse change. If maritime disruption in the Strait of Hormuz resolves within weeks, even severe short-term cash flow disruption may not meet the *Grupo Hotelero* materiality threshold.

The analysis potentially changes if the disruption persists for months and materially alters the borrower's ability to generate revenue.

### Wrongful Enforcement Risk

If a lender refuses to fund or accelerates a facility on the basis of a MAC event of default that is not in fact established, it risks being in breach of the facility agreement. An invalid notice of acceleration will be treated as void by the courts, and subsequent steps taken in reliance on the acceleration notice may be breaches of contract giving the borrower a claim in damages for losses suffered (among other remedies). The consequences may be significant where acceleration triggers cross-defaults across a borrower's wider capital structure.

Market practice, particularly since the global financial crisis, has therefore consistently favoured reliance on clear nonpayment or covenant breaches rather than solely MAC-based acceleration where such defaults are available.

## Reviewing MAC Drafting

The scope of the analysis ultimately depends on the wording of the MAE definition and the relevant MAC provisions. LMA-form documentation typically defines an MAE as including any material adverse effect on the business, operations, property, condition (financial or otherwise) or prospects of the borrower group taken as a whole. Lenders reviewing their GCC exposures should consider whether:

- The definition or relevant provisions refer only to financial condition or also to broader business or operational effects.
- The provisions contain geographic or sector-specific language directly exposed to the current disruption.
- There are any borrower-friendly amendments such as those requiring an adverse change to be continuing or not temporary.
- There are any lender-friendly constructs, such as framing the assessment of adverse change as a matter of a lender's opinion.
- The borrower was already operating close to covenant thresholds before the escalation.

Where a borrower was already operating with limited covenant headroom, geopolitical disruption may push the analysis from marginal compliance into territory where a MAC argument becomes commercially relevant – if not as a clear contractual trigger, then at least as leverage for lenders in negotiations with the borrower.

## Drafting Recommendations for Future Facilities

The current disruption also has implications for how MAE definitions will be negotiated in future facilities.

In *Grupo Hotelero*, the MAC clause was limited to the borrower's financial condition. Blair J held that "financial condition" refers to the borrower's financial position as demonstrated by its financial information and does not extend to broader matters such as market conditions or prospects. The standard LMA formulation is wider, capturing adverse effects on the borrower group's business, operations or prospects as well as its financial condition.

A clause confined to financial condition is therefore materially narrower than one referring more broadly to the borrower's business. Recent events across the Persian Gulf illustrate how that distinction can be commercially significant.

Stress for borrowers in sectors such as aviation, logistics and energy services has often appeared first through operational disruption such as grounded fleets, suspended shipping routes and production interruptions. The effect on financial statements typically follows as a result. A definition confined to financial condition therefore captures a narrower range of circumstances than one that also refers to adverse effects on a borrower's business, trading or operations.

In negotiating new facilities or refinancings, lenders are likely to favour retaining the broader LMA formulation, determined by reference to their opinion. They should also be mindful of the interaction between financial reporting covenants and MAC provisions, since sufficiently timely and detailed financial reporting may assist lenders in evidencing financial deterioration at an earlier stage than might otherwise be possible. Conversely, borrowers will typically seek to confine the relevant provisions and definitions to financial condition, limit a lender's subjective interpretation, and/or introduce limiting qualifiers such as materiality thresholds or requirements that any adverse change be continuing rather than temporary. As ever, the negotiation is about risk allocation.

### MAC Carve-outs for Market-wide Events

In some heavily negotiated facilities, strong borrowers negotiate carve-outs to the MAC provisions for changes affecting general economic conditions, financial markets or the borrower's industry. In the GCC market, sovereign and government-related entity borrowers, which typically have strong balance sheets and significant negotiating leverage, are among the types of borrowers most likely to secure a narrower MAE definition or additional qualifications to MAC provisions. Even so, lenders will typically seek to qualify the carve-out so that it does not apply where the borrower is disproportionately affected compared with other participants in the same sector.

In a disruption affecting multiple GCC borrowers simultaneously, borrowers in sectors such as aviation, shipping and logistics may seek to rely on such provisions by arguing that operational interruption caused by restrictions on regional airspace or disruption to Strait of Hormuz shipping routes reflects sector-wide conditions rather than borrower-specific deterioration.

Where drafting of this type appears, the question will usually be whether the borrower has been affected more severely than comparable operators in the same sector. Facilities containing this type of carve-out therefore require a more detailed factual assessment before a MAC position can be taken by either party.

## 3 – Can Lenders Stop Funding? Drawstop and Utilisation Conditions

Separate from its role as an event of default, the MAC concept also operates as a utilisation condition through the repeating no-MAE representation. The borrower must represent on each utilisation date that no MAE has occurred since the date of the agreement or, in some drafting, since the most recent financial statements.

Where a lender has reasonable grounds to believe that this representation cannot be made in good faith, it is entitled to refuse further utilisation. This drawstop right is distinct from, and in some respects more immediately valuable than, an event of default. It does not require acceleration of existing outstanding amounts and therefore limits the magnitude of the wrongful enforcement risk, albeit a drawstop based on an erroneous assertion of MAC may still amount to an actionable breach of contract. It preserves committed availability as negotiating leverage and may be exercisable on the basis of a lower evidentiary threshold than MAC-based acceleration.

In the GCC context, drawstop is particularly significant for the following common facility types:

- **Project finance and capex facilities with staggered drawdown programmes tied to construction milestones** – Where a GCC construction or infrastructure project faces operational disruption such as supply chain dislocation, labour movement restrictions or contractor force majeure, and the relevant conditions precedent for a drawdown cannot be satisfied, the drawstop position may crystallise independently of any MAC analysis.
- **Revolving credit facilities where ongoing utilisation is subject to a repeating representation package** – Where there are reasonable grounds to believe that the no-MAE representation cannot be given in good faith, specific legal advice should be sought before a utilisation request is funded or declined in order to avoid wrongful refusal to lend.
- **Undrawn facilities** – Committed facilities with significant undrawn amounts warrant particular attention, and the drawstop position should be assessed alongside the event of default analysis.

## Key Takeaways

The disruption now affecting businesses operating in the Persian Gulf and the wider region places unusual stress on sectors that are heavily represented in GCC loan portfolios. It is therefore inevitable that attention will turn to the operation of MAC clauses in English law facility agreements.

The English law threshold for establishing an MA remains demanding and borrower specific. Reliance on a MAC event of default as a basis for acceleration will therefore continue to require careful legal and factual analysis. At the same time, the precise drafting of the relevant MAE definition remains critical. Clauses framed by reference to the reasonable opinion of lenders may operate differently in practice from purely objective formulations, and the contractual language will often determine how readily a MAC argument can be advanced.

In practice, the more immediate question in many facilities may be whether further funding can properly be withheld where utilisation conditions or repeating MAE representations are engaged. In situations where lenders retain significant undrawn commitments, the drawstop position may become a more immediate point of focus than acceleration.

Experience from prior periods of systemic disruption suggests that MAC clauses rarely operate as stand-alone enforcement triggers. More commonly, they form part of the broader negotiating framework through which lenders and borrowers address emerging credit stress. The wording of MAE definitions and utilisation mechanics will therefore warrant careful attention as market participants assess their positions in the coming weeks and months.