

Finance Alert

March 2021

IBA, FCA LIBOR Announcements Trigger Benchmark Transition Process

The [ICE Benchmarks Administration \(IBA\)](#) announced March 5 that all LIBOR (London Interbank Offered Rate) settings will either cease to be provided by any administrator or no longer be representative. This shift will occur immediately after Dec. 31 in the case of all GBP, euro, CHF and JPY LIBOR settings, and in the case of one-week and two-month USD LIBOR settings; and immediately after June 30, 2023, in the case of the remaining USD LIBOR settings. [The U.K. Financial Conduct Authority](#) confirmed the IBA's announcement the same day. While this announcement confirms that most tenors of USD LIBOR will continue past year-end 2021 for legacy contracts, the U.S. banking regulators have stated that they believe the use of USD LIBOR after Dec. 31 for new contracts presents safety and soundness risks, and banks will be examined on that basis.

In anticipation of a transition away from LIBOR, the Federal Reserve Board formed the Alternative Reference Rates Committee (ARRC), a group of private-market participants convened by the Board and Federal Reserve Bank of New York in cooperation with other banking regulators. ARRC has prepared language for use by market participants to address the transition from LIBOR to the Secured Overnight Financing Rate (SOFR), a new benchmark. Many lenders and administrative agents for syndicated loan facilities have incorporated the ARRC fallback language or some variation into their loan documents. In the ARRC-recommended language, one of the triggering events for a "Benchmark Transition Event" is a public statement or publication of information by or on behalf of the administrator of a benchmark (in this case, IBA) announcing that the administrator has ceased or will cease to provide all available tenors of the benchmark (or its components), permanently or indefinitely.



The ARRC confirmed March 9 that the March 5 announcements by IBA and the FCA constitute a Benchmark Transition Event with respect to all USD LIBOR settings, pursuant to the ARRC-recommended language for new issuances or originations of LIBOR floating rate notes, securitizations, syndicated business loans and bilateral business loans. The effect of a Benchmark Transition Event is to establish the beginning of the transition process.

The initial consequence of the Benchmark Transition Event is that lenders in bilateral loans and agents in syndicated loans will most likely need to send out a notice to borrowers and other lenders of the occurrence of the event. Although the interest rates will not be transitioning away from LIBOR until the end of 2021 or 2023, depending on the currency and rate, notice is still required under the ARRC fallback language. The Loan Syndications and Trading Association (LSTA) has provided a generic form of notice that can be adapted for a lender's or agent's specific use.

Because the preferred replacement for LIBOR in the U.S. is SOFR, a risk-free rate, the market recognizes that an

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adjustment to the spread will be necessary to provide as neutral a transition between borrower and lender as possible. The second consequence of the Benchmark Transition Event is to establish this spread adjustment. The International Swaps and Derivatives Association (ISDA) has stated that the FCA's announcement constitutes an "Index Cessation Event," and, as a result, the ISDA fallback spread adjustments published by Bloomberg have been fixed as of the date of that announcement for all LIBOR benchmark settings. ARRC has agreed that these spread adjustments will apply to loans and derivatives.

Market participants should review their LIBOR replacement language to determine their specific obligations as a result of the March 5 announcements, in particular what notices they must provide. Also, after March 5, the LIBOR replacement language used in new loan facilities (or amendments of existing ones) should be adjusted for the fact that the Benchmark Transition Event has occurred and the spread adjustment has been determined.

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