

P.R.I.M.E. Finance

Panel of Recognized International Market Experts in Finance



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Benchmarking update: Economic Issues, the Potential for Value Transfer and
the Potential for Disputes

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P.R.I.M.E. Finance Annual Conference 2020
3 February, Peace Palace, The Hague

ISDA Initiatives for New vs. Legacy Derivatives Transactions

I. New Transactions

- ISDA 2018 Benchmark Supplement
- ISDA is amending Section 7.1 of the 2006 Definitions through a Supplement
- Counterparties should ensure that their Confirmations reference the ISDA 2006 Definitions
- Nothing else needs to be done

II. Legacy Transactions

- ISDA is preparing a Protocol which will be open for 3 months to enable legacy contracts to incorporate the fallbacks
- Both parties must adhere – adherence is from when last party adhered



Other Industry and Regulatory Initiatives for LIBOR Transition

I. Regulatory

- “Dear CEO Letters”

II. Industry

- Loan Market Association for syndicated loans
 - Considered behind, but issues are more complex due to multilateral/multicurrency and be-spoke structure and had hoped for the development of a forward looking term rate and agreement on backward looking compounding in arrears methodology
 - market regulators have set a target of no new £LIBOR loans after Q3 2020
 - Legacy contracts will not be dealt with through a Protocol but through an LMA Reference Rate Selection Agreement (standardised agreement to agree the replacement rate)
 - New Contracts will have to agree the LMA Replacement of Screen Rate Clause (requires lower consensus) vs. hard wired approach
- International Capital Market Association for bonds and floating rate notes
 - Replacement generally requires consent
 - Increased issuances using the RFRs



Legislative Initiatives: Aspirational or Possible Solution?

- I. Legal working group of the Alternative Reference Rates Committee (**ARRC**) is developing draft potential New York State legislation to amend LIBOR legacy contracts governed by New York law to SOFR rate/spread adjustment contracts
 - Mandatory Application – silent and LIBOR-based fall back contracts
 - Discretionary Application – contracts whereby a calculation/administrative agent is required to determine the applicable alternative rate

- II. Possible Roadblocks
 - Constitutional Challenge – Article 1, Section 10 of the US Constitution
 - Which SOFR/rate spread adjustment will be applied?
 - Domestic Solution – legislation will not apply to non New York law governed contracts
 - Enforceability? – will the legislation be enforceable outside of the U.S.?

- III. *Is global internationally coordinated legislation a possible solution?*



What Market Participants Should Be Doing Now

- Determine exposure to LIBOR across all products
- Review your derivatives and cash transactions to determine which will mature before the end of 2021 and which mature after
- Identify and amend fallback language in both legacy and new transactions with the goal to developing uniform fallback language for all new transactions
- Consider doing some test trades in the RFRs in various products to become familiar with the mechanics and systems issues
- Consider when to transition new transactions to reference RFRs
- Consider adhering to the ISDA Protocols or using other industry documentation
- Update your systems, accounting/pricing/valuation models



Thank you



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