LSTA Statement on LIBOR Replacement

March 27, 2018 - Last July, Andrew Bailey, Chief Executive of the UK based Financial Conduct Authority, made a now famous speech where he signaled the potential cessation of LIBOR as early as the end of 2021. While it is not completely clear at this time that the continued quoting of LIBOR as a benchmark rate will actually end or be significantly curtailed we must prepare for that eventuality.

Naturally, loan market participants have been looking at ways of addressing this contingency insofar as it affects current loans that may remain outstanding at that time. Consistent with its mission to “promote a fair orderly, efficient and growing corporate loan market and provide leadership in advancing and balancing the interests of all market participants”, the LSTA has been working on this issue with regulators, other trade associations, and our members.

Recently, the LSTA accepted an invitation to join as a member of the Alternative Reference Rates Committee (AARC) and to co-chair the ARRC Business Loans and CLOs Working Group. AARC is a group of private-market participants sponsored by the Federal Reserve Board and the Federal Reserve Bank of New York to address the range of transition issues raised by the potential cessation of LIBOR. In addition, the LSTA is a member of the LIBOR Trade Association Working Party which is comprised of the LMA, ISDA, SIFMA, and others, to ensure that the interests of the U.S. loan market are fully considered and comprehended by financial markets as they navigate similar issues.

As we monitor developments in the loan market, we are mindful of the different approaches being adopted in credit agreements to accommodate the possibility that another reference rate will be required in approximately four years. In keeping with our mission, we would like to urge all market participants to be cognizant that, when handling this issue, the interests of all parties to a credit agreement should be taken into account. It is essential that borrowers, administrative agents, and lenders all be given the opportunity to participate in that process. Consistent with ISDA’s objective to eliminate or minimize value transfer1, we believe that by taking into account the interests of all parties to a credit agreement, the potential for value transfer upon transition to a new rate may be reduced. By taking this balanced approach when drafting credit agreements now, the potential for future conflict will be dramatically reduced.

1 “ISDA’s Benchmarks Initiatives” presented by Scott O’Malia, ISDA CEO, and Katherine Darras, ISDA General Counsel at ARRC Roundtable, November 2, 2017.