THE LOAN SYNDICATIONS AND TRADING ASSOCIATION

# Ops and Blocks

April 26, 2018 - On April 24th, the LSTA hosted nearly 500 attendees at the Annual Operations Conference; there they learned what the future holds. As the Keynote discussed disruptive technology, just imagine a loan market whose participants share permissioned blockchains, aka distributed ledger technology (DLT) – and legacy systems are a thing of the past.

In fact, blockchain actually may deserve the buzz it gets. In the loan space, it allows for agreement without a central authority. Banks, custodians/trustees and lenders all would host nodes, meaning that as participants in the blockchain, they share a copy of the ledger and relay new transactions to each other. Each node replicates and saves an identical copy of the ledger, so that every node would have the same information. But blockchain in our market will be private and secure; through encryption each party will only see its own transactions. Imagine the Agent Banks', Lenders' and Custodians' records in complete agreement! The need for reconciliation is eliminated, and Agent freezes for interest and principal payments would be a thing of the past. So who is working in this space? Synaps Loans (a permissioned blockchain network using Symbiont technology), LenderComm (using R-3's Corda platform) and Markit's Stax Payments (powered by JPM Quorum blockchain) are just three of the vendor options.

Of course, blockchain doesn't work without unique identifiers. The adoption of standards in our industry has been slow. But the time has come to embrace standards – in particular, unique identifiers for deals/facilities and participants (i.e. CUSIPs and MEIs). To enable the future (read: blockchain), CUSIPs should be applied for at the beginning of the process and included on bank books and term sheets. Lenders should have CUSIPs in their systems from the commitment/allocation stage to price the deals appropriately before the primary trades even settle. Primary market lawyers must ensure their inclusion on draft and final documents. CUSIPs must be included on all trade documentation and servicing notices.

Meanwhile, a new standard Admin Detail Form will allow data to be automatically consumed into agent bank systems. It will align with the FpML standard and ADF portals. New accounts must be onboarded at the time of formation, not the first trade. (Likewise, lenders should provide new account information to Agents as soon as the new entity is formed and be responsive to documentation requests as quickly as possible.) Current tax forms must be maintained with Agents in order to avoid unnecessary withholdings. Furthermore the industry will work toward significantly reducing, if not eliminating entirely, pop-ups on assignment agreements in favor of credit agreement representations. Usage of the LSTA Form of Assignment and Assumption Agreement was advised.

The message of the day? Prepare for disruptive innovation and educate yourself. Learn what a distributed ledger can do, how it works, how your existing and new processes can integrate into the ledger, and how FpML standards can jumpstart this system integration. And when in doubt, always – always –ask questions.