

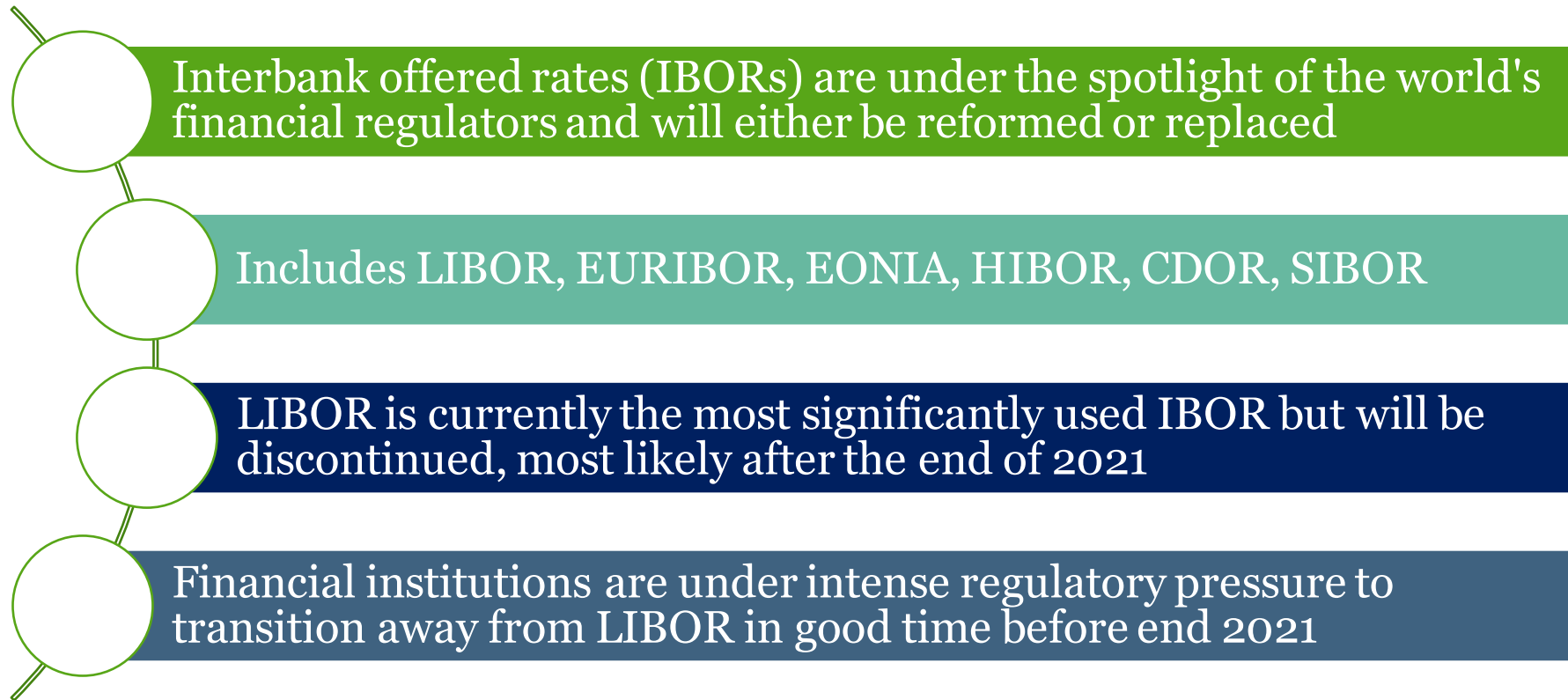
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Select 2020
Impact of IBOR
discontinuation on
corporate borrowers/issuers
James Doyle, Andrew Taylor and
Susan Whitehead

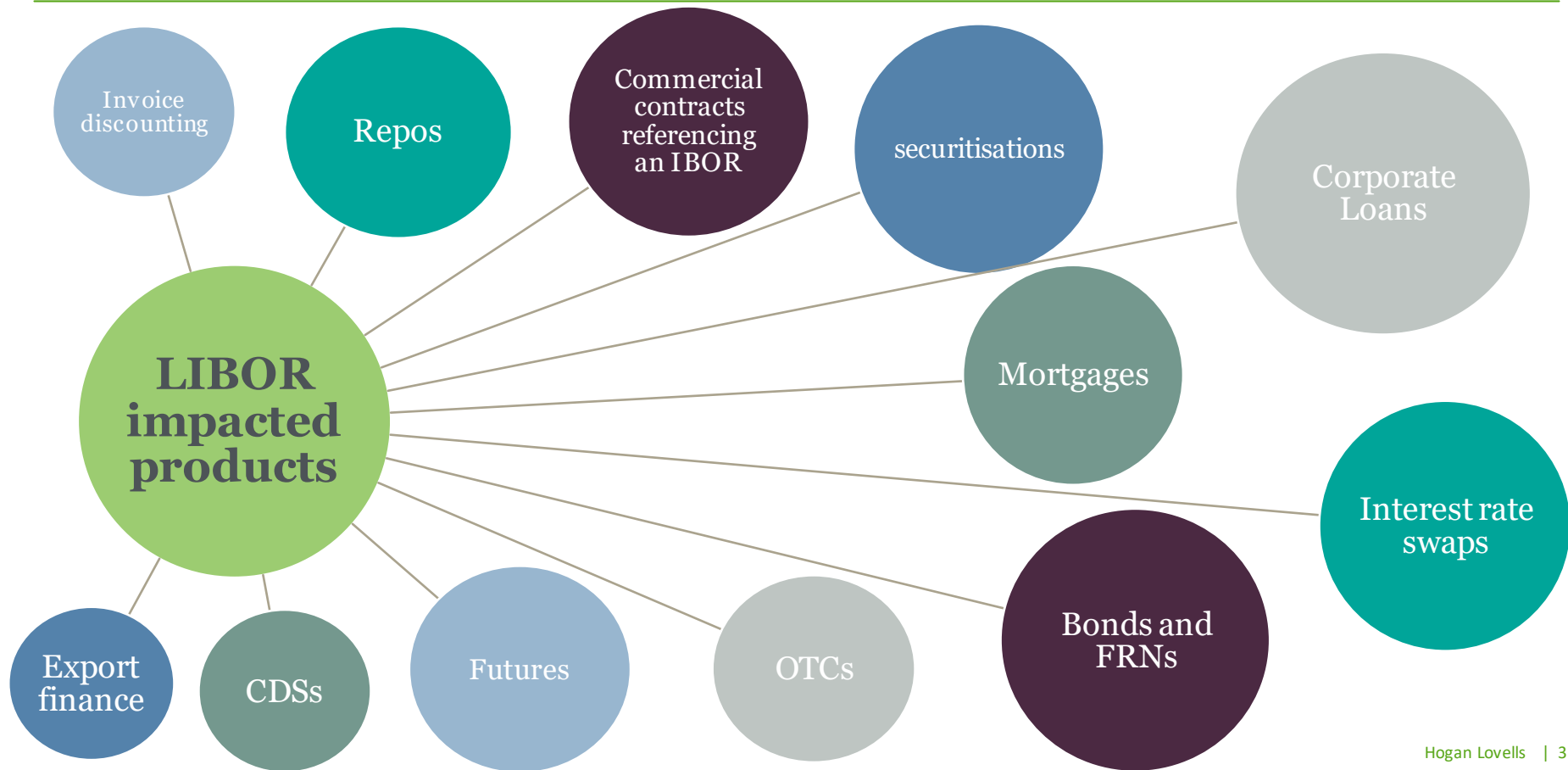
4 March 2020



IBORs are in the process of reform

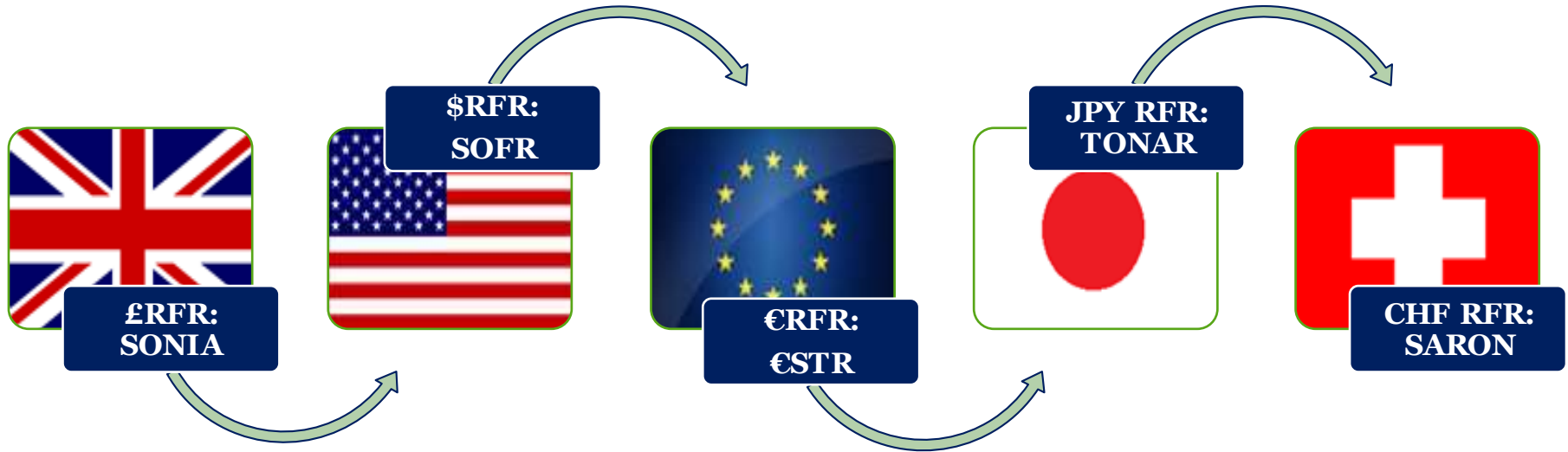


Impacted transactions








LIBOR is the benchmark rate for 5 currencies

Instead each currency will have a separate replacement RFR



LIBOR Transition – RFR Working Groups and new Risk Free Rates

Currency	Working Group	Alternative RFR	Rate Administrator	Secured vs. Unsecured	Tenor
	Working Group on Sterling Risk-free Rates	SONIA	Bank of England	Unsecured	Overnight
	Alternative Reference Rates Committee	SOFR	Federal Reserve Bank of New York	Secured	Overnight
	Working Group on a RFR Rate for the Euro Area	€STER	European Central Bank	Unsecured	Overnight
	Study Group on Risk-Free Reference Rates	TONAR	Bank of Japan	Unsecured	Overnight
	National Working Group on Swiss Franc Reference Rates	SARON	SIX Swiss Exchange	Secured	Overnight

New RFRs are not equivalent to LIBOR: contrast SONIA

Nature of rate	LIBOR	SONIA
Currency:	Consistent approach for all five currencies	Sterling only. Timelines and approaches for other currencies will differ
Tenor:	Available for 7 tenors	Overnight rates only Can be compounded on backwards looking basis Working party considering possibility of producing forward-looking term rate
Credit premium:	Unsecured rate that includes term bank credit risk	Unsecured near risk free rate, does not incorporate bank credit risk
Source:	Based on survey of banks	Based in transaction data – unsecured overnight lending and borrowing market
Timing of publication :	11am GMT for all currencies	9am the following London BD

What does this mean for corporate borrowers/issuers?

- Will start to see use of new RFR benchmarks increase for new financial products
 - New issues of FRNs and securitisations have been using SONIA/SOFR for some time
 - Far fewer loans based on SONIA to date but this will soon start to change
- Products which are still lent on LIBOR but with a tenor beyond 2021 likely to have updated fallbacks effective from stated LIBOR transition trigger events
 - Hardwiring
 - Cessation and often pre-cessation triggers
- Risk factors in DCM prospectuses
- Should see communications from financial institutions regarding LIBOR cessation
 - Extra care required if taking out interest rate hedging or other derivatives

“2020 will be a key year for transition.”

FCA, January 2020

Existing LIBOR referencing agreements will need amending

If they are scheduled to continue post 2021

If not amended and LIBOR ceases to exist interest payments become very hard to calculate as most agreements will not contemplate permanent cessation of LIBOR



Loans – need individually amending

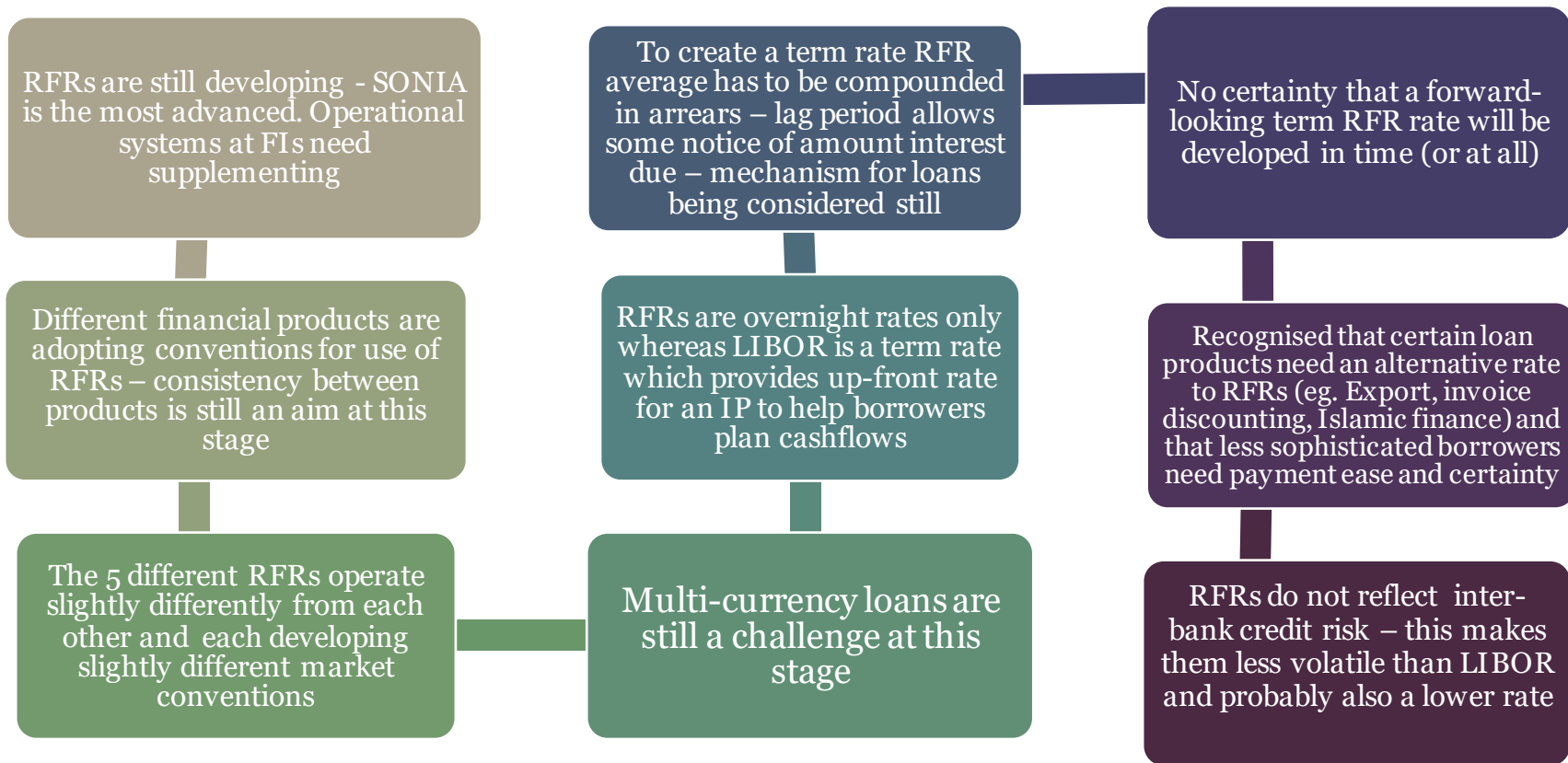
For UK and European loans the benchmark will ultimately fall back to lenders' cost of funds – not feasible and not transparent



Bonds – also need individually amending

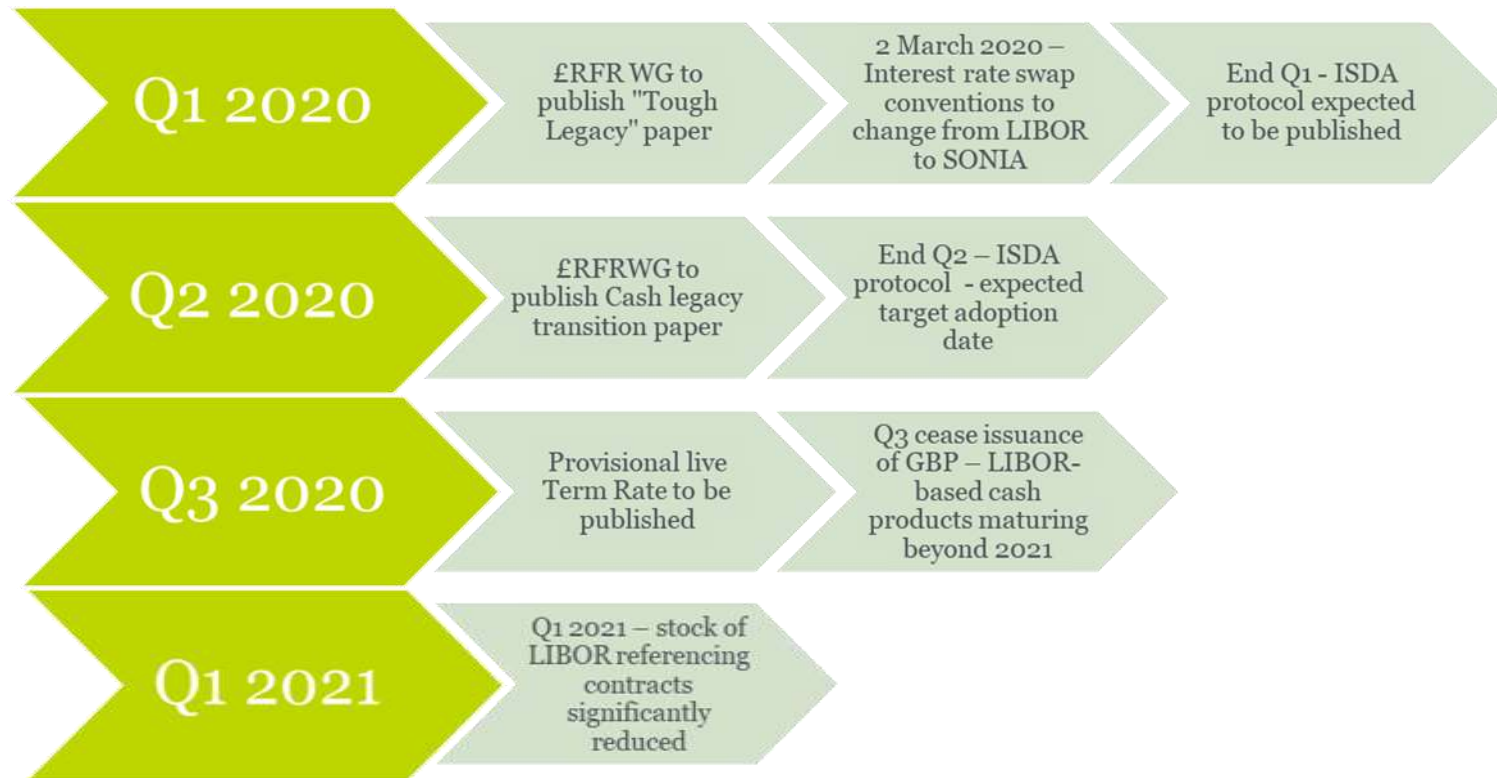
FRNs often fall back to the last quoted LIBOR, meaning the rate is likely to become fixed

Why is this so complicated?



The new RFR markets are all still developing

SONIA is the most advanced and the UK Regulators (FCA/PRA) are forcing firms to advance transition plans to meet the end 2021 deadline



What do corporates need to do?

- Review commercial contracts – where possible replace LIBOR references with alternative rate – Bank of England base rate?
- Review financial products you may have in place – will an RFR work for you? Do your treasury systems need updating?
 - Have you taken out any hedging which could give rise to mis-match if it or the loan is transitioned first?
- If you are taking out new floating rate products during next few months it is vital that you are aware of the transition plan
- Pay attention to communications from your Bank or other financial counterparties when they reach out to you about transition

"The intention is that sterling LIBOR will cease to exist after the end of 2021. No firm should plan otherwise."

FCA , January 2020

Points to note



Timing

Credit spread adjustment

Basis risk

Costs of amendments

Can you work in practice with RFR compounded in arrears?

Hogan Lovells LIBOR tool

The free Hogan Lovells LIBOR tool helps you to keep on top of the evolving picture as you prepare for transition.

Click here to register for the tool:

<https://engagepremium.hoganlovells.com/libor>

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