

# The Impending Exit of LIBOR: What Corporates Need to Know

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# Session Goals

- **Understand the timetable for LIBOR replacements**
- **Understand key risks**
- **Understand next steps you can take**

# **Poll 1: The End of LIBOR**

**When will LIBOR cease to be published?**

- A. End of 2019**
- B. End of 2021**
- C. End of 2025**
- D. None of the above**

## **Poll 2: Successor to LIBOR**

**What rate has the ARRC recommended replace LIBOR?**

- A. Fed Funds**
- B. Secured Overnight Financing Rate**
- C. Prime Rate**
- D. 10 year UST rate**
- E. Synthetic LIBOR**

# The Road to Risk Free Rates

- 2009-2010: U.S. CFTC begins investigating LIBOR manipulation
- 2012: First settlements against banks for LIBOR manipulation
- November 2013: Alternative Reference Rates Committee (ARRC) formed
- June 2017: Secured Overnight Financing Rate (SOFR) chosen by ARRC for USD LIBOR alternative
- Q3 2018: SOFR-related debt begins to be issued
- 2019-2021?: SOFR term rates available?
- December 31, 2021: Banks no longer compelled to submit to LIBOR

## **Poll 3: Legacy Debt and Derivatives**

**Who has the solution regarding legacy debt and derivatives if LIBOR ceases to be available?**

- A. ISDA**
- B. The US Federal Reserve**
- C. The UK Financial Conduct Authority**
- D. The ARRC**
- E. No one**

## **Poll 4: Successor to LIBOR**

**If LIBOR ceased being available tomorrow, which type of obligations are likely to have a “fallback” (i.e., replacement) reference rate?**

- A. Interest rate derivatives**
- B. Corporate loans**
- C. Neither**
- D. Both**

# Key Risks in Transition

- **How do you know LIBOR is dead**
- **Fallback language**
- **Credit spread adjustments**
- **Loan/Hedge mismatches**
- **No easy solution for legacy debt and derivatives**
- **SOFR is more volatile than LIBOR over short periods since it is transaction based**
- **Uncertainty on timing**



## **Poll 5: Preparedness**

**How confident are you that you know your current exposure to LIBOR unavailability**

- A. Very confident**
- B. Confident**
- C. Not confident**
- D. LIBOR is not going away, why worry?**

# Steps you need to consider

- **Review your debt and derivatives documentation**
- **Familiarize yourself with SOFR and begin tracking SOFR-based products**
- **Begin thinking through LIBOR alternative hedging strategies**
- **Evaluate system impacts**
- **How to manage documentation**
- **Ask what would happen if LIBOR were to become unavailable sooner than expected**

## **Poll 6: Access to term rates**

**The biggest challenge with a LIBOR replacement that was set in arrears rather than a forward looking term rate is:**

- A. Cash management since rates will only be known at the end of a payment period**
- B. Operational changes necessary to implement new rates**
- C. A and B**
- D. Something else**
- E. It will not be a challenge**

## Poll 7: Timing

**Once LIBOR alternative rates are identified, and assuming they are fit for purpose, how long will it take my organization to transition:**

- A. 6 Months**
- B. 1 Year**
- C. 2 Years**
- D. >2 Years**

# Final Takeaways

- **Tension between regulator influence on LIBOR replacement and organic market evolution**
- **Assess your LIBOR fallbacks**
- **Identify areas of risk for debt, hedging, and operations**
- **Get engaged, don't wait**