FRIEDMAN KAPLAN

FRIEDMAN KAPLAN SEILER & ADELMAN LLP

LIBOR Transition: What Boards Need to Know and Do in the Final 18 Months

Mutual Fund Directors Forum · 22 February 2022

London Interbank Lending Is Falling Off…

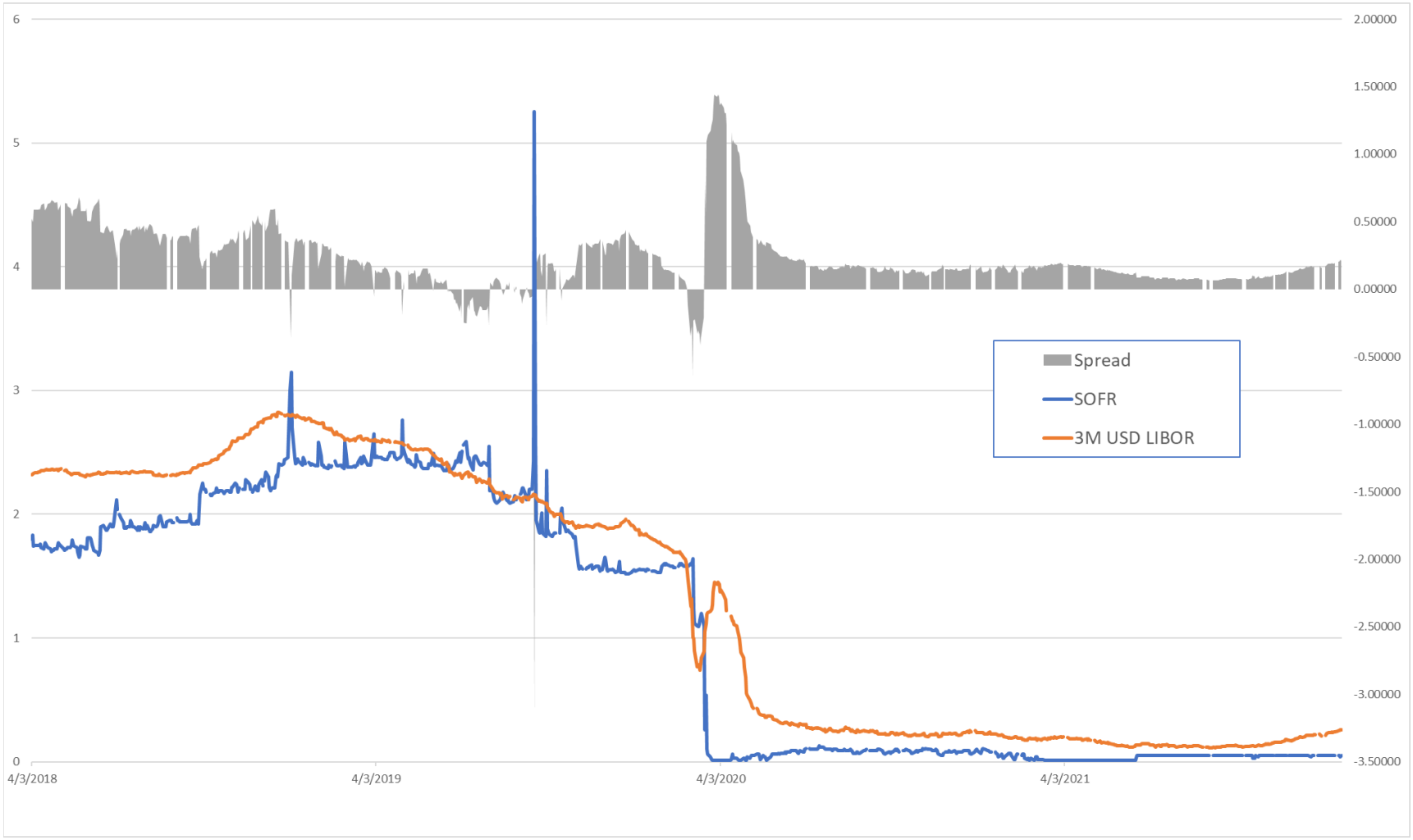
Image Credit: Alexandra Scaggs, “Libor Could Still Haunt Preferred-Share Investors,” *Barron’s*, January 11, 2019.

WHY DOES LIBOR TRANSITION MATTER?

It affects – directly or indirectly – virtually every asset class and financial instrument:

- Bonds – corporate, municipal
- Loans – leveraged, syndicated
- Floating rate notes
- Derivatives – exchange-traded, OTC
- Asset-backed securities/structured products – RMBS, CMBS, CDOs
- Preferred securities
- Structured securities
- Business development companies (BDCs)
- Real estate investment trusts (REITs)
- Private funds
- Interval funds
- ETFs and mutual funds

SOFR vs. LIBOR



What has been completed so far?

- ARRC recommends SOFR
- ARRC fallback language for new contracts
- ISDA 2020 IBOR Fallbacks Protocol
- State “tough legacy” legislation
  - New York
  - Other states
- Term SOFR
- “SOFR First”
- Credit sensitive rates
- December 31, 2021!

LIBOR: DEAD OR ALIVE?

Bloomberg the Company & Its Products | Bloomberg Terminal Demo Request | Bloomberg Anywhere Remote Login | Bloomberg Customer Support

Bloomberg

Markets

Private-Credit Firms Use SOFR for Loans Even Though They Don't Have To

- Antares, Varagon shifted away from underwriting Libor deals
- Liquidity is a big motivator for direct lenders to adopt SOFR

EST

ut the shift away from the U.S. dollar
banks are no longer the only firms
eraged loans, Libor technically can stay

LIVE ON BLOOMBERG
Watch Live TV
Listen to Live Radio

Notice

With iShares fixed income ETFs, get access to both broad and precise exposures in a single trade.

FINANCIAL TIMES

HOME WORLD US COMPANIES TECH MARKETS CLIMATE OPINION WORK & CAREERS LIFE & ARTS HOW TO SPEND IT

Libor transition + Add to myFT

Jefferies and Antares Capital pitch loan tied to tarnished Libor

Deal exposes challenge of outlawing tainted interest rate benchmark from all corners of the market

Share

Save

The New York Times

Libor, Long the Most Important Number in Finance, Dies at 52

Bankers used it until the end. Regulators say good riddance after its infamous fall.

SOFR vs. LIBOR

Chart 10: US dollar LIBOR IRD Traded Notional by Maturity (US$ trillions)

Source: DTCC SDR

Source: ISDA, "TRANSITION TO RFRs REVIEW: Full Year 2021 and the Fourth Quarter of 2021," January 2022.

What's Next?

- June 30, 2023!
- Federal legislation?

What to Look for

- **Things that should be completed:**
  - Inventory
  - Engagement – counterparties and service providers
  - Amendments (where feasible) and ISDA protocol
  - Operations updates – systems, models

What to Look for

- **Things that should be in progress:**
  - Operationalizing effects of fallbacks, amendments and legislation
  - Mitigation
  - Disclosures

Key Issues for Mutual Fund Directors

- **Areas of particular concern:**
  - Structured products
  - Cross-border instruments
  - Portfolio modeling and valuation
  - Fund performance benchmarks

NEW YORK
7 Times Square
New York, NY 10036-6516
212.833.1100

NEW JERSEY
One Gateway Center, 25th Floor
Newark, NJ 07102-5311
973.877.6400