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LIBOR End Dates Confirmed

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The administrator for LIBOR and other inter-bank offered rates, ICE Benchmark Administration ("IBA"), confirmed on March 5, 2021 its previously announced dates for LIBOR cessation.[1] On the same day, the U.K. Financial Conduct Authority ("FCA") announced that 1-week and 2-month USD LIBOR will cease publication after December 31, 2021, as will all non-USD LIBOR tenors, and that 3-month, 6-month and 1-year USD LIBOR will cease publication after June 30, 2023.

What does this mean for outstanding USD LIBOR floating rate notes that have the Alternative Reference Rates Committee's ("ARRC") recommended fallback provisions? A "Benchmark Transition Event," as defined in the ARRC fallbacks, has occurred.[2] However, USD LIBOR will not transition to the secured overnight financing rate ("SOFR") under the ARRC fallbacks because the required "Benchmark Replacement Date" has not occurred.

The FCA announcement also was an "Index Cessation Event" under Supplement No. 70 to the 2006 ISDA Definitions. Consequently, the ISDA fallback spread adjustments published by Bloomberg were fixed on March 5, 2021, which was the "Spread Adjustment Fixing Date" under ISDA Supplement No. 70. The ARRC has previously stated that it will use the same spread adjustments as ISDA for floating rate notes.

For 3-month USD LIBOR floating rate notes using the ARRC fallbacks, on the first business day after June 30, 2023, the replacement rate will be either Term SOFR, if available, or Compounded SOFR, plus the spread adjustment of 0.26161.[3]

In the FCA's announcement on the cessation of LIBOR, there was some discussion of a possible "synthetic" USD LIBOR. Synthetic USD LIBOR would be published after the respective cessation date of a USD LIBOR tenor, but would not be representative.[4] Synthetic IBORs would be used, according to the FCA, for "tough legacy contracts," *i.e.*, legacy IBOR contracts that, by their terms, do not include workable fallback provisions to transfer to a replacement rate. It is hard to see an application for synthetic USD LIBOR in the US capital markets, as the proposed New York and federal legislative solutions will, once passed, automatically cause outstanding legacy

[1] See our previous article at: https://bit.ly/3u5KrJs.

[2] See the ARRC announcement at: https://nyfed.org/3fpNKqM and the related FAQs at: https://nyfed.org/39HwvOn.

[3] See the Bloomberg notice at: https://bit.ly/3m055bk.

[4] Synthetic USD LIBOR would be a rate published as USD LIBOR, but would not be based on an interbank offered rate. For example, synthetic USD LIBOR could be Term SOFR or Compounded SOFR, plus a spread adjustment, but published as "USD LIBOR." This is the equivalent of pulling the handle marked "vanilla" on the soft serve ice cream machine, getting chocolate, and calling it vanilla.

USD LIBOR floating rate notes and other USD LIBOR securities and contracts to fall back to SOFR under the ARRC's recommended fallback provisions.

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