

LIBOR Committee Publishes ‘Playbook’ as a Guide for Final Year of Conversion

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Summary

The Alternative Reference Rate Committee (ARRC), convened by the Federal Reserve Board and the New York Fed to help ensure a successful transition from LIBOR to SOFR, this week published its LIBOR Legacy Playbook, which guides banking organizations through the last year of LIBOR.

The Upshot

- While much has already been done to effect a transition of USD LIBOR to SOFR, there are still a significant number of challenging legacy contracts, and the ARRC remains concerned about an operational Armageddon occurring on June 30, 2023.
- The ARRC strongly suggests that banking organizations conduct a thorough assessment of fallback language in their relevant contracts.
- The ARRC further suggests that the assessments be completed in consultation with counsel and that counsel review include proscribed points concerning trigger events, fallback rates, and governing law.

The Bottom Line

Ballard Spahr Finance attorneys are tracking the transition from LIBOR to SOFR and are available to consult on contract review and assessment, as well as other questions and issues related to the conversion.

The Alternative Reference Rate Committee this week published its LIBOR Legacy Playbook, which guides banking organizations through the last year of LIBOR. While the ARRC recommendations are not requirements, regulators are likely to give them significant weight. The Playbook contains a strong suggestion that the final phase of transition include a thorough legal analysis of in-scope documents and development of a plan, including a communication plan on how to effect the final conversion.

Publication of the remaining tenors of USD LIBOR are slated to end in 2023 and may, but are not guaranteed to be, continued synthetically. While much already has been done to effect a transition of USD LIBOR to SOFR, there are still a significant amount of challenging legacy contracts, and the ARRC remains concerned about an operational Armageddon occurring on June 30, 2023. In particular, the ARRC notes that approximately \$5 trillion of post-June 30, 2023, LIBOR exposures are in cash products such as loans and securities and will need to be converted on or about June 30 next year, along with approximately \$74 trillion in derivatives. The Playbook is designed to both reduce the number of LIBOR contracts outstanding on the conversion date and to help firms and clients operationally prepare for conversion.

While hardwire language, derivatives protocols, and LIBOR legislation at the state and federal levels have gone a long way toward addressing the transition, successful operational implementation remains a concern. In that regard, the ARRC strongly suggests that banking organizations conduct a thorough assessment of fallback language in their relevant contracts. The ARRC further suggests that the assessments be completed in consultation with counsel and that the counsel's review include proscribed points concerning trigger events, fallback rates, and governing law.

Many law departments, including those of small and mid-sized banks, lack sufficient staff to perform this type of analysis and need to either increase staff or retain competent counsel.

Ballard Spahr Finance attorneys are tracking the transition from LIBOR to SOFR and are available in the event of further questions or to discuss the conversion and how banks have been addressing the process.

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