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For Syndicated Loan Market, NY Fed Anticipates Publication of "Term Structure" SOFR in 2Q 2018 and Implementation in 2021

By *Andrew Colao and Veronica Bonhamgregory*

In this update, we look at the advancements the Alternative Reference Rates Committee ("ARRC") appointed by the NY Fed is making as it moves forward in replacing the London Interbank Offered Rate ("LIBOR") with the Secured Overnight Funding Rate ("SOFR").

The ARRC's Plan to Transition to SOFR

In June 2017, the ARRC made its recommendation that SOFR would replace LIBOR. To confirm the decision to move to SOFR and to highlight how the ARRC plans to address potential issues with the transition, the ARRC conducted a roundtable of large institutional fixed income managers in November of 2017.

As described in a prior Weil Alert, The Transition from LIBOR and the Syndicated Loan Market's Initial Reaction, SOFR differs from LIBOR in that it is backward-looking rather than forward-looking. SOFR is based on overnight Treasury Bond repos.

ARRC now will develop a SOFR rate that can be used in the syndicated loan market. For the syndicated loan market, SOFR will be adjusted (i) from an overnight rate to a rate for specified periods such as one or three months and (ii) to reflect a risk spread in light of the fact that SOFR is a rate secured by nearly risk-free collateral.

The Federal Reserve anticipates publication of the "term structure" SOFR in the second quarter of 2018. Implementation of a term reference rate is expected to occur by the end of 2021, which corresponds to the planned phase out of LIBOR.

The ARRC's inclusion of a term reference rate that will be developed while the LIBOR rate is still published allows participants in the syndicated loan market to become comfortable that a transition to SOFR will not cause a loss of value.

Your Weil Finance Team is Available to Assist

Given the transition from LIBOR to SOFR as outlined above, we encourage our private equity clients to reach out to the Weil finance team with any questions regarding the implications of this LIBOR issue in your existing and future credit facilities and other financing transactions.

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If you have questions concerning the contents of this issue, or would like more information, please speak to your regular contact at Weil, or to:

Authors

Andrew Colao (NY)	View Bio	andrew.colao@weil.com	+1 212 310 8830
Veronica Bonhamgregory (Dallas)	View Bio	veronica.bonhamgregory@weil.com	+1 214 746 7845