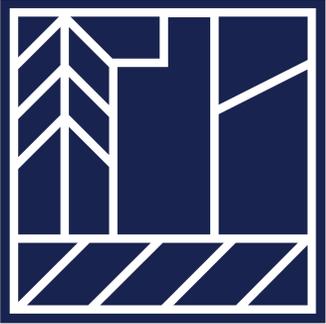


# The Last Days of LIBOR: Lessons Learned and Next Steps

April 28, 2022



**FHLBank**  
Chicago

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**Michael Koegler**  
*Managing Principal*

Market Alpha is a market structure and FinTech advisory firm with expertise in every financial market asset class, including fixed income, futures, derivatives and interest rate benchmarks.

Members of the Market Alpha team have held senior business, product and technology roles across leading financial institutions, technology providers, data vendors and exchange operators.

Market Alpha offers LIBOR Transition expertise to clients as it relates to:

- Governance Structure
- Communication Strategy
- Exposure Identification
- Product Strategy
- Contractual Remediation
- Advice on Accounting, Tax and Regulatory Matters
- Implementation and Conversion



**Pieter van Vredenburg**  
*Principal*

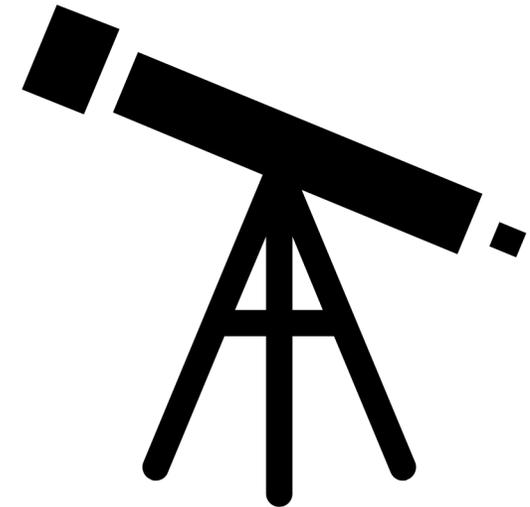
Market Alpha specializes in helping clients unpack complex aspects of market structure, which requires understanding the granular details along with an ability to tie data and information to strategic insights and recommendations.



**Deep Shah**  
*Hedge Accounting Expert*

## Critical Areas of Focus

- ***Selection of a LIBOR Replacement Rate for use in New Contracts***
  - ARRC-recommended daily compounded SOFR has numerous problems with adoption (i.e., no term structure, no credit-sensitivity, etc.)
  - Term SOFR works from an operational perspective, but the lack of credit sensitivity is an issue
  - Credit-Sensitive Rates (CSRs) like AMERIBOR and BSBY are options, but there has been significant regulatory pushback
  - Participants need to understand the nuanced differences with these rate choices
- ***Identifying Fallback Risk in Documents Governing Existing Contracts***
  - Firms need to review, categorize and prioritize fallback risk in deal documents (if you haven't done this already, call us immediately!)
  - The federal legislation has become law, but should be relied upon only as a last resort
- ***Evaluating Economic Impact and Minimizing Potential Losses***
  - Identifying fallback risk is important, but the economic impact must be evaluated as well
- ***Amendment Process for Loans and Securities***
  - Contracts will need to be remediated at some level unless ARRC hardwired fallback language is used
  - It is important for borrowers and investors to understand the nuances of the amendment process
- ***Timing Differences in Conversion of Cash and Derivative Instruments***
  - Cash and derivative instruments may not convert at the same time, giving rise to potential basis risk
- ***Hedge Accounting Issues***
  - Amendments may introduce ineffectiveness as it relates to hedge accounting



## Significant Considerations Remain

- Different risk characteristics between SOFR and CSRs
- Conversion Spread Adjustments
- Pricing deals indexed to SOFR
- Evaluation of risks in a SOFR-only world
- Issues particular to your institution
- Hedge Accounting



# Is SOFR the Right Benchmark for Everything?



## Money Market Instruments

- Time Deposits
- Money Market Accounts
- Demand Deposits
- Checking Accounts
- CDs
- Commercial Paper
- Medium-term Notes
- Securities Lending



## Loan Products

- Commercial Loans
- Syndicated Loans
- Floating Rate Bank Notes
- Leveraged Loan Facilities
- Intercompany Loans
- Agricultural Loans
- Mortgage Loans
- Home Equity Loans
- Student Loans
- Credit Card Loans
- FHLB Advances



## Derivative Securities

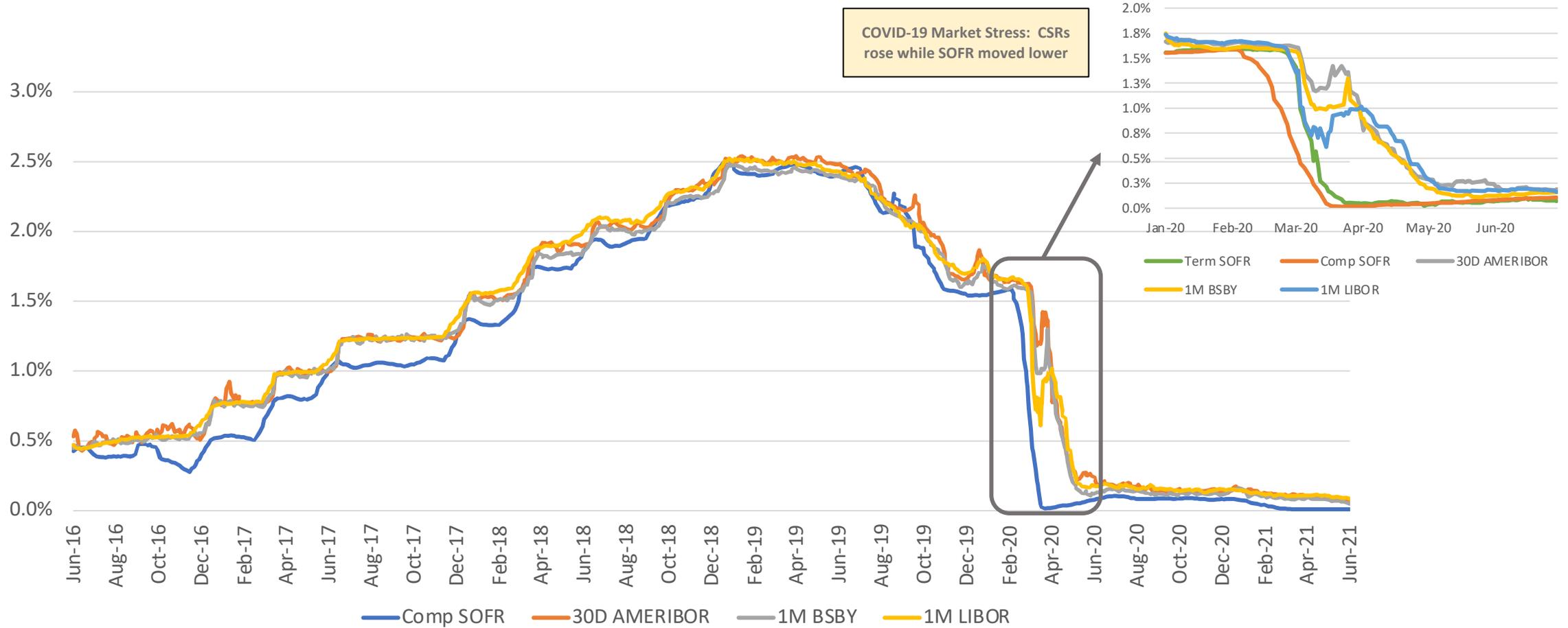
- Interest Rate Swaps
- Cross-currency Swaps
- Caps and Floors
- Swaptions
- Mortgage Derivatives
- Exotic Derivatives



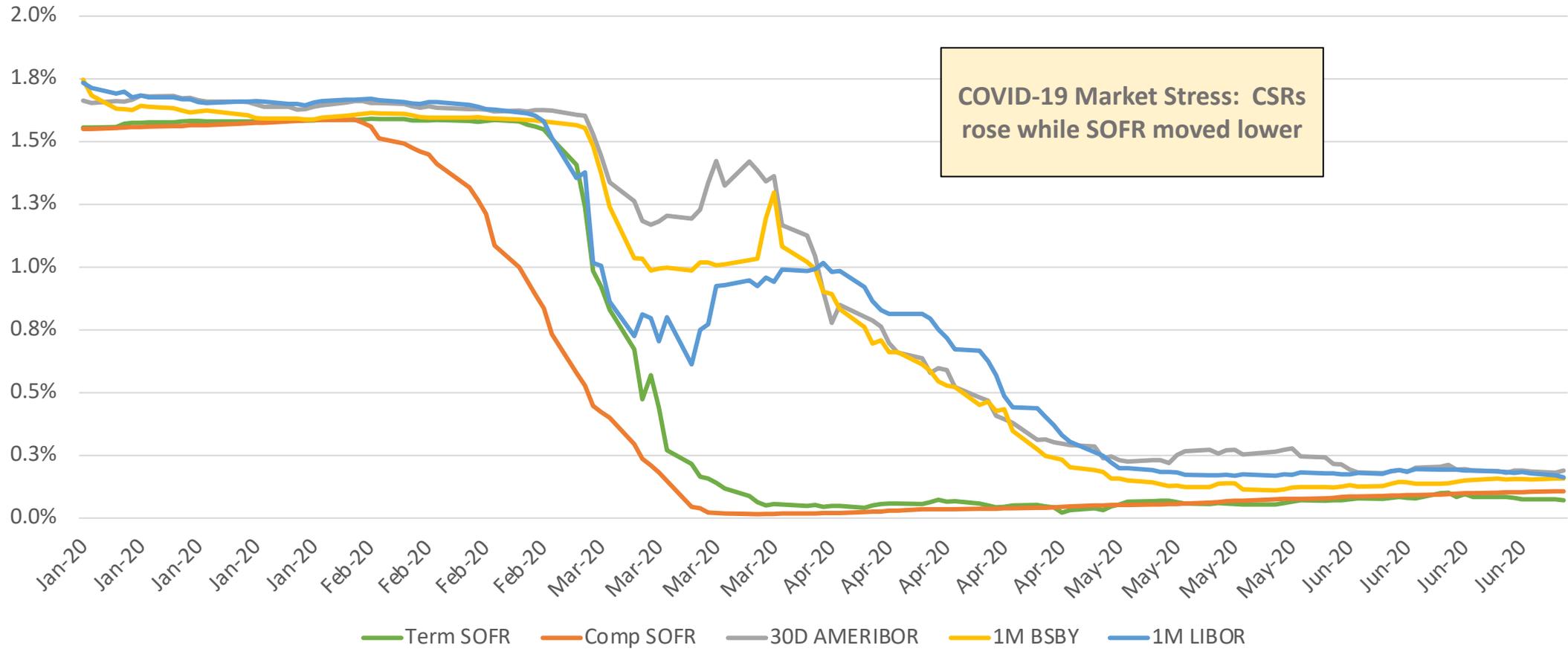
## Structured Products

- Asset-backed Securities (ABS)
- Mortgage-backed Securities (MBS)
- Commercial Mortgage-backed Securities (CMBS)
- Collateralized Mortgage Obligations (CMOs)
- Collateralized Loan Obligations (CLOs)
- Hybrids and Synthetics

# Reference Rate Comparison (5yr Historical Data)



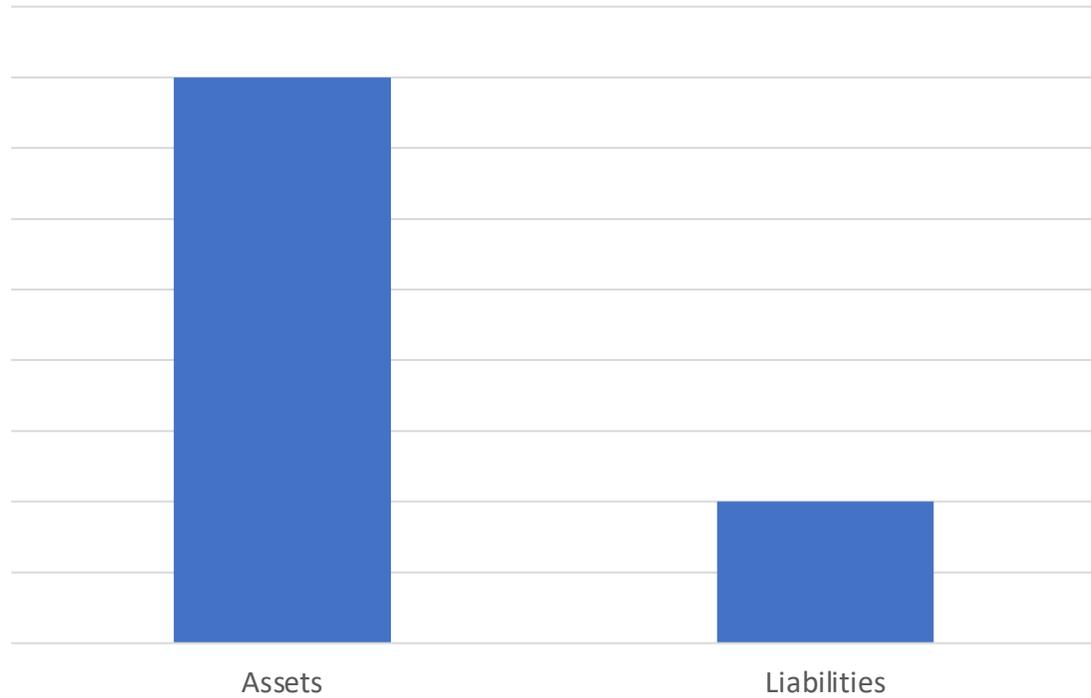
# Credit-Sensitivity Matters in Times of Stress



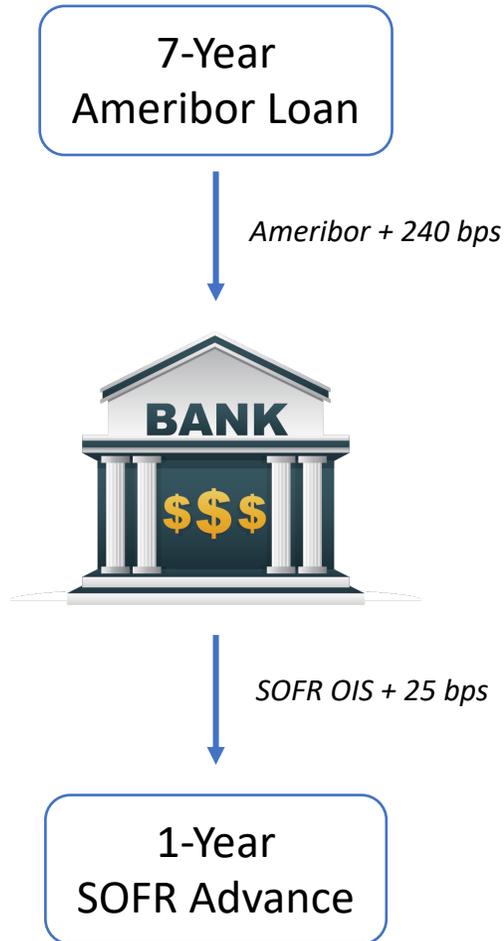
# Asset Sensitive Balance Sheet



## *Duration*

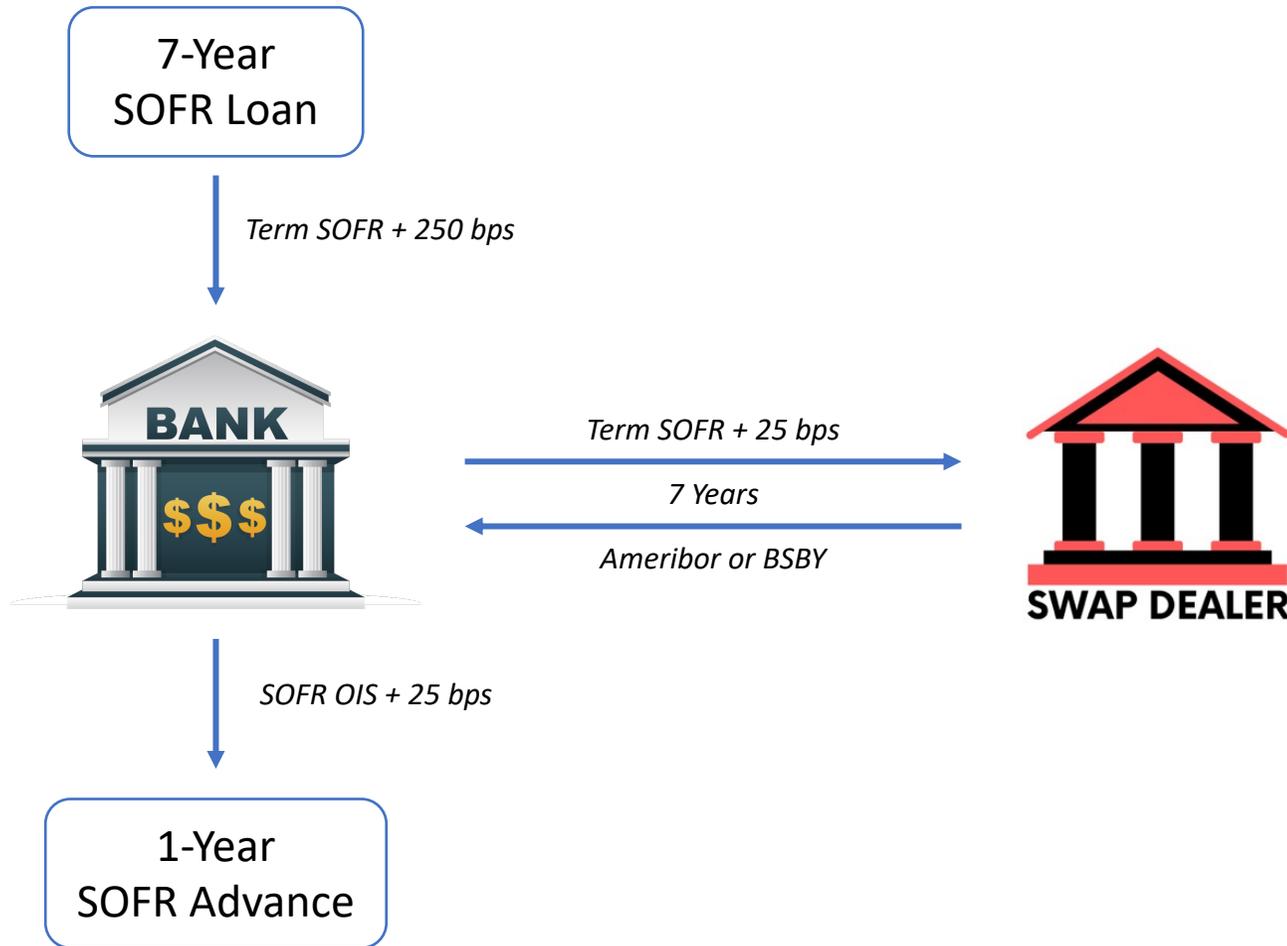


# Hedging Funding Risk w/ CSRs



*Originating loans in Ameribor that are short-funded in the SOFR market may protect an institution from NII compression during a credit event and subsequent flight to quality.*

# Hedging Funding Risk w/ CSRs



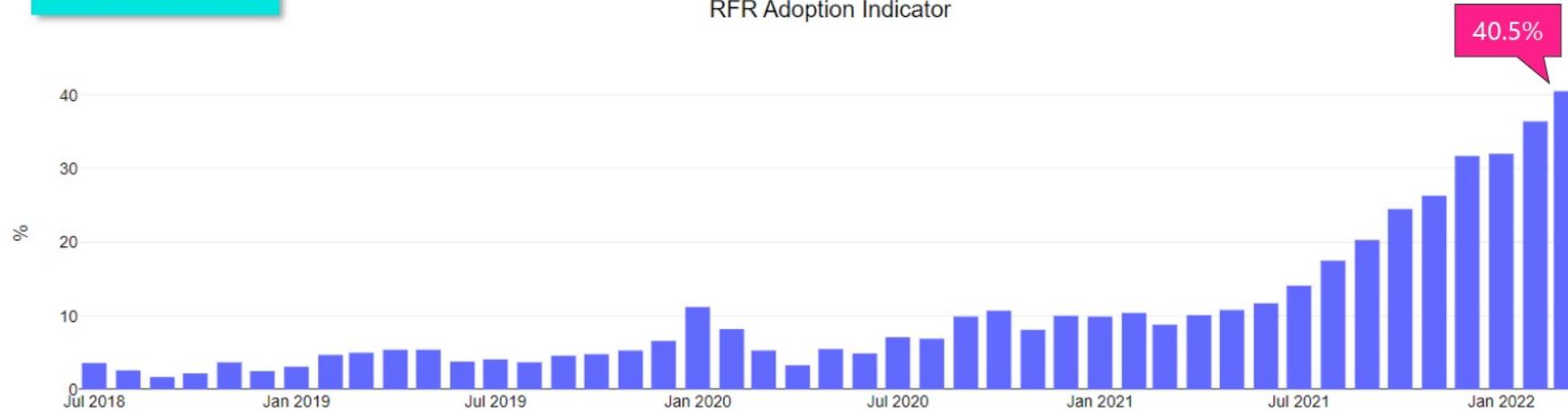
*A basis swap can be used to hedge the base credit sensitivity between a CSR like Ameribor or BSBY.*

*In this way, a lender can remain asset-sensitive and effectively manage the risk of NII compression during a credit event and subsequent flight to quality.*

# RFR Adoption Indicator

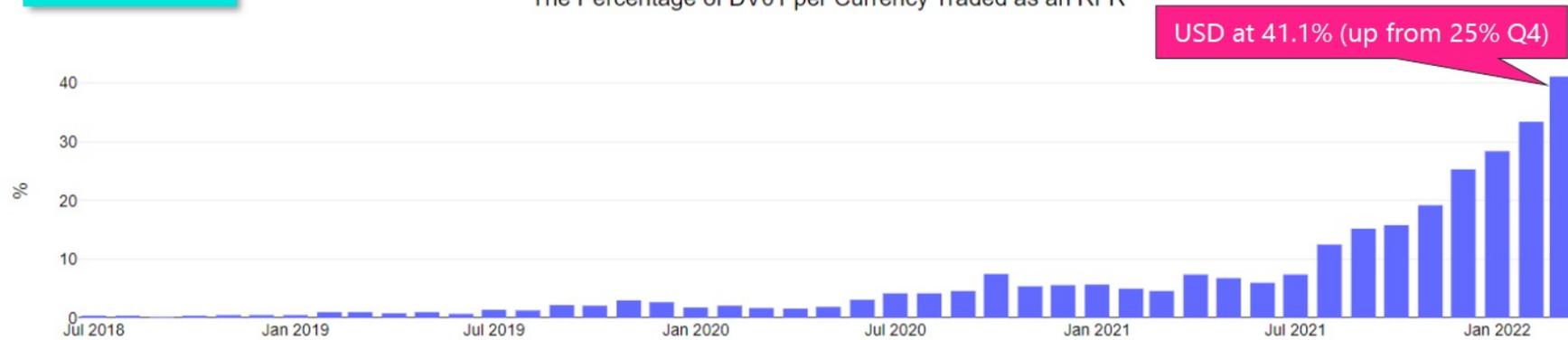
**All Currencies:**

RFR Adoption Indicator



**USD (SOFR):**

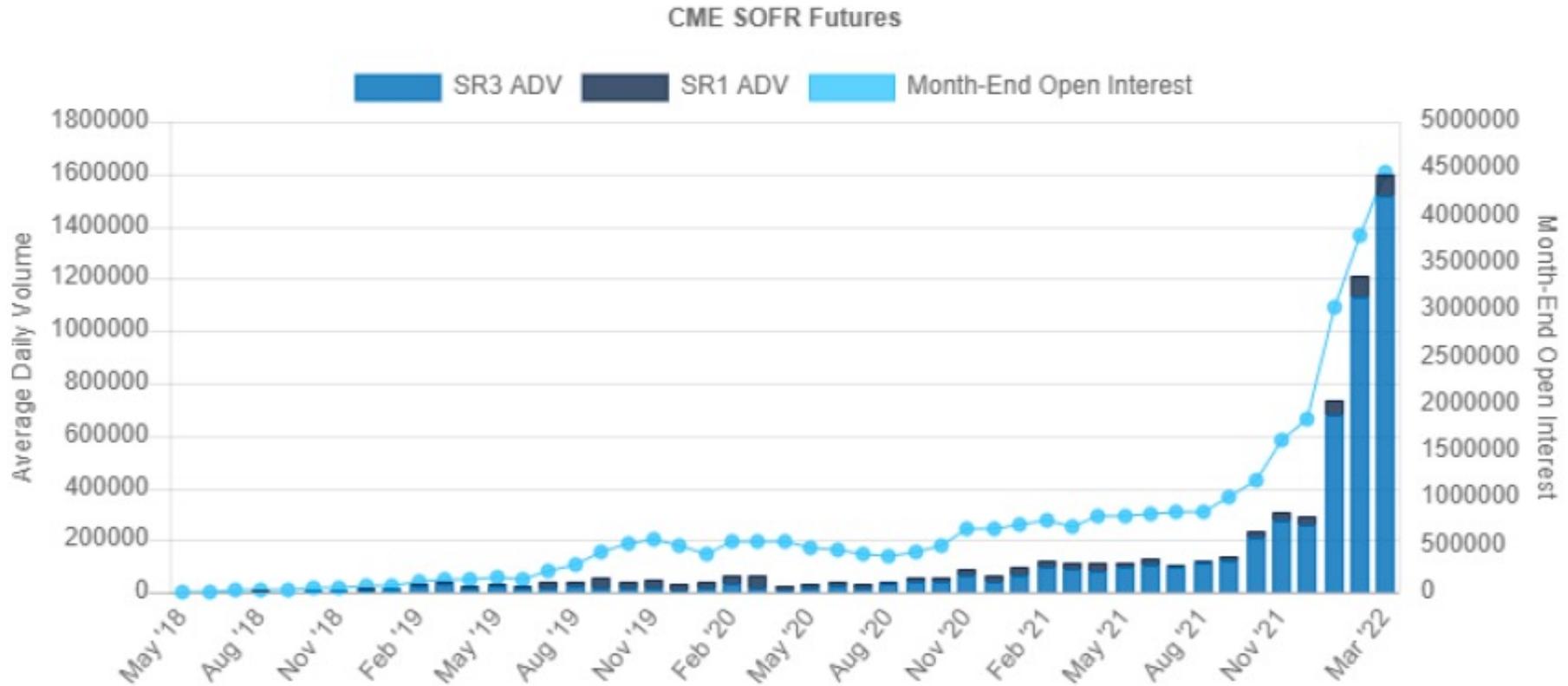
The Percentage of DV01 per Currency Traded as an RFR



USD at 41.1% (up from 25% Q4)

Source: ClarusFT

# CME SOFR Futures Volume Increasing Dramatically





DATE	CME TERM SOFR (%)				SOFR*		SOFR AVERAGES*		
	1 MONTH	3 MONTH	6 MONTH	12 MONTH	OVERNIGHT	INDEX	30-DAY AVG (%)	90-DAY AVG (%)	180-DAY AVG (%)
25 Apr 2022	0.66877	1.02528	1.5307	2.19656	-	1.04281438	0.2877	0.15269	0.10119
22 Apr 2022	0.64601	0.98439	1.44991	2.10252	0.27	1.04279092	0.28803	0.14525	0.09747
21 Apr 2022	0.62361	0.94913	1.38627	2.01343	0.26	1.04278339	0.2887	0.14291	0.0963
20 Apr 2022	0.58044	0.90486	1.33433	1.94615	0.27	1.04277557	0.28937	0.14036	0.09508
19 Apr 2022	0.5711	0.8873	1.29596	1.89465	0.28	1.04276746	0.29003	0.1378	0.09369

*\*The SOFR and SOFR AVERAGES data is sourced from [newyorkfed.org](https://www.newyorkfed.org) and is subject to the Terms of Use posted at [newyorkfed.org](https://www.newyorkfed.org). The New York Fed is not responsible for publication of the SOFR and SOFR AVERAGES data by CME Group, does not sanction or endorse any particular republication, and has no liability for use.*

**Note:**

- A license must be obtained from the CME
- Restricted to certain use cases
- Hedges must match a specific asset or liability
- Term SOFR is a derived rate and is not the rate preferred by the ARRC
- Federal Reserve may not allow the use of Term SOFR as a LIBOR replacement for tough legacy deals

# SOFR Yield Curve



97) Settings ▾ 98) Output ▾ 200) Show in Launchpad Page 1/1 ICAP Global Menu

US Medium Term BSBY Swaps US Medium Term SOFR Swaps US Medium Term LIBOR Swaps Swap vs 1M Overnight..

**ICAP** SOFR Medium Term Swaps 60) MSG Contributor 15:08:14

Zoom - + 100%

ICAP Global Menu -> ICAP Americas -> Specialist -> SwapPX (Digital) -> US Medium Term SOFR Swaps

Medium Term Swap SOFR	Bid	Ask	Mid	Time	Medium Term Swap SOFR	Bid	Ask	Mid	Time
1) 2Y	-0.750	1.250	0.250	12:14	17) 2Y	2.611	2.631	2.621	15:06
2) 3Y	-12.875	-10.875	-11.875	10:59	18) 3Y	2.666	2.686	2.676	15:08
3) 4Y	-18.500	-16.500	-17.500	09:40	19) 4Y	2.634	2.654	2.644	15:07
4) 5Y	-23.625	-21.625	-22.625	15:05	20) 5Y	2.608	2.628	2.618	15:07
5) 6Y	-27.000	-25.000	-26.000	09:40	21) 6Y	2.579	2.599	2.589	15:08
6) 7Y	-28.375	-26.375	-27.375	09:40	22) 7Y	2.570	2.590	2.580	15:08
7) 8Y	-27.750	-25.750	-26.750	09:40	23) 8Y	2.563	2.582	2.572	15:08
8) 9Y	-26.875	-24.875	-25.875	09:40	24) 9Y	2.556	2.576	2.566	15:07
9) 10Y	-24.500	-22.500	-23.500	14:57	25) 10Y	2.566	2.586	2.576	15:07
10) 12Y	-24.250	-22.250	-23.250	20:38	26) 12Y	2.569	2.589	2.579	15:07
11) 15Y	-37.375	-35.375	-36.375	07:29	27) 15Y	2.569	2.589	2.579	15:07
12) 20Y	-55.125	-53.125	-54.125	07:30	28) 20Y	2.523	2.543	2.533	15:07
13) 25Y	-53.375	-51.375	-52.375	07:30	29) 25Y	2.444	2.464	2.454	15:07
14) 30Y	-51.875	-49.875	-50.875	14:56	30) 30Y	2.363	2.383	2.373	15:07
15) 40Y	-69.375	-67.375	-68.375	18:04	31) 40Y	2.188	2.208	2.198	15:07
16) 50Y	-80.000	-78.000	-79.000	18:04	32) 50Y	2.082	2.102	2.092	15:07

# BSBY Yield Curve



97) Settings ▾					98) Output ▾					200) Show in Launchpad					Page 1/1 ICAP Global Menu				
US Medium Term BSBY Swaps					US Medium Term SOFR Swaps					US Medium Term LIBOR Swaps					Swap vs 1M Overnight...				
ICAP BSBY Medium Term										60) MSG Contributor					15:16:14				
Zoom - + 100%										ICAP Global Menu -> ICAP Americas -> Specialist -> SwapPX (Digital) -> US Medium Term BSBY Swaps									
Medium Term BSBY Swap Spread					Medium Term BSBY Semi Bond														
Bid	Ask	Mid	Time		Bid	Ask	Mid	Time		Bid	Ask	Mid	Time						
1) 2y	24.8750	26.8750	25.8750	15:16	15) 2y	2.8650	2.8850	2.8750	15:16										
2) 3y	15.6250	17.6250	16.7500	15:16	16) 3y	2.9480	2.9680	2.9590	15:16										
3) 4y	11.5000	13.5000	12.5000	15:16	17) 4y	2.9310	2.9510	2.9410	15:16										
4) 5y	5.8750	7.8750	6.8750	15:05	18) 5y	2.9000	2.9200	2.9100	15:16										
5) 6y	3.7500	5.7500	4.7500	15:16	19) 6y	2.8820	2.9020	2.8920	15:16										
6) 7y	2.7500	4.7500	3.7500	15:16	20) 7y	2.8760	2.8960	2.8860	15:16										
7) 8y	3.3750	5.3750	4.3750	15:16	21) 8y	2.8680	2.8880	2.8780	15:16										
8) 9y	4.3750	6.3750	5.3750	14:57	22) 9y	2.8640	2.8840	2.8740	15:16										
9) 10y	5.8750	7.8750	6.8750	14:57	23) 10y	2.8640	2.8840	2.8740	15:15										
10) 12y	8.6250	10.6250	9.6250	15:12	24) 12y	2.8920	2.9120	2.9020	15:15										
11) 15y	-4.7500	-2.7500	-3.7500	15:13	25) 15y	2.8910	2.9110	2.9010	15:15										
12) 20y	-20.5000	-18.5000	-19.5000	15:16	26) 20y	2.8660	2.8860	2.8760	15:16										
13) 25y	-19.2500	-17.2500	-18.2500	15:13	27) 25y	2.7810	2.8020	2.7910	15:15										
14) 30y	-18.3750	-16.3750	-17.3750	14:56	28) 30y	2.6930	2.7130	2.7030	15:16										

# AMERIBOR Yield Curve



Capital Markets

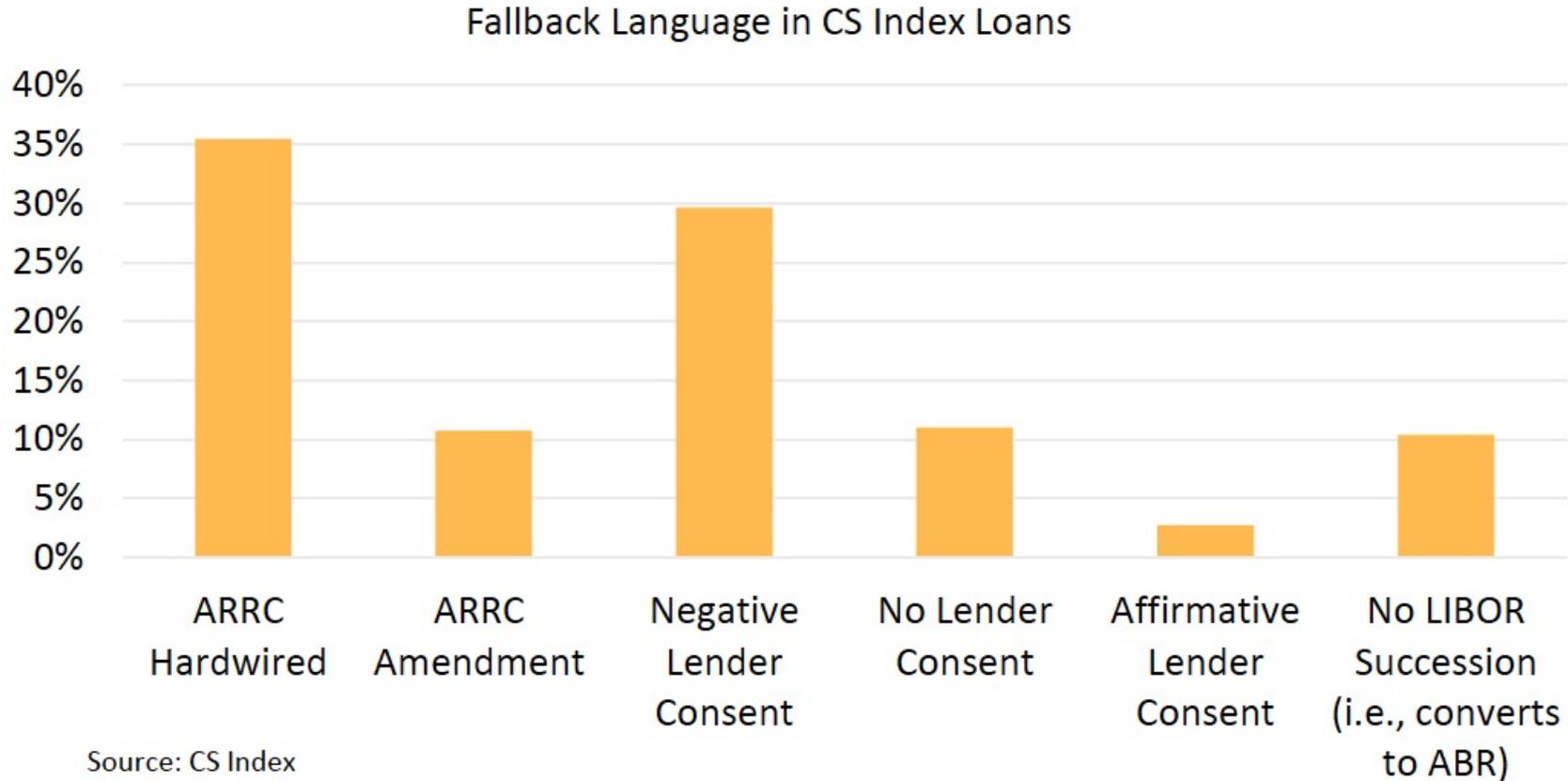
<b>AMERIBOR<sup>®</sup></b>				
	<b>30T Swap (%)</b>	<b>SOFR Basis</b>	<b>90T Swap (%)</b>	<b>SOFR Basis</b>
<b>Fixing</b>	<b>0.45748</b>	<b>-21.2</b>	<b>1.04591</b>	<b>2.1</b>
<b>1M</b>	<b>0.466</b>	<b>-19.2</b>		
<b>3M</b>	<b>1.003</b>	<b>0.4</b>	<b>1.054</b>	<b>5.4</b>
<b>6M</b>	<b>1.588</b>	<b>9.9</b>	<b>1.704</b>	<b>21.0</b>
<b>9M</b>	<b>1.938</b>	<b>10.2</b>	<b>2.091</b>	<b>24.2</b>
<b>1Y</b>	<b>2.189</b>	<b>10.7</b>	<b>2.363</b>	<b>25.7</b>
<b>18M</b>	<b>2.522</b>	<b>11.9</b>	<b>2.704</b>	<b>27.5</b>
<b>2Y</b>	<b>2.668</b>	<b>12.7</b>	<b>2.861</b>	<b>28.8</b>
<b>3Y</b>	<b>2.742</b>	<b>14.0</b>	<b>2.938</b>	<b>30.3</b>
<b>5Y</b>	<b>2.694</b>	<b>14.9</b>	<b>2.890</b>	<b>31.4</b>
<b>7Y</b>	<b>2.676</b>	<b>15.6</b>	<b>2.877</b>	<b>32.7</b>
<b>10Y</b>	<b>2.675</b>	<b>15.8</b>	<b>2.878</b>	<b>33.1</b>
<b>20Y</b>	<b>2.659</b>	<b>16.4</b>	<b>2.864</b>	<b>33.9</b>
<b>30Y</b>	<b>2.501</b>	<b>17.0</b>	<b>2.701</b>	<b>34.4</b>
	<b>Monthly/Monthly Act/360</b>		<b>Annual/Quaterly Act/360</b>	
<b>Last Updated</b>	<b>2022-04-25 12:54:28 PM</b>			
<b>Server Time</b>	<b>12:54:42 PM</b>			

## Transitioning Legacy Loans Away From LIBOR

- Refinance directly into SOFR prior to LIBOR's end on June 30, 2023
- Fallback from LIBOR to SOFR using fallback language before June 30, 2023
- Fallback from LIBOR to SOFR using fallback language on June 30, 2023
- Don't fallback, and end up switching to Alternate Base Rate/Prime after June 30, 2023\*

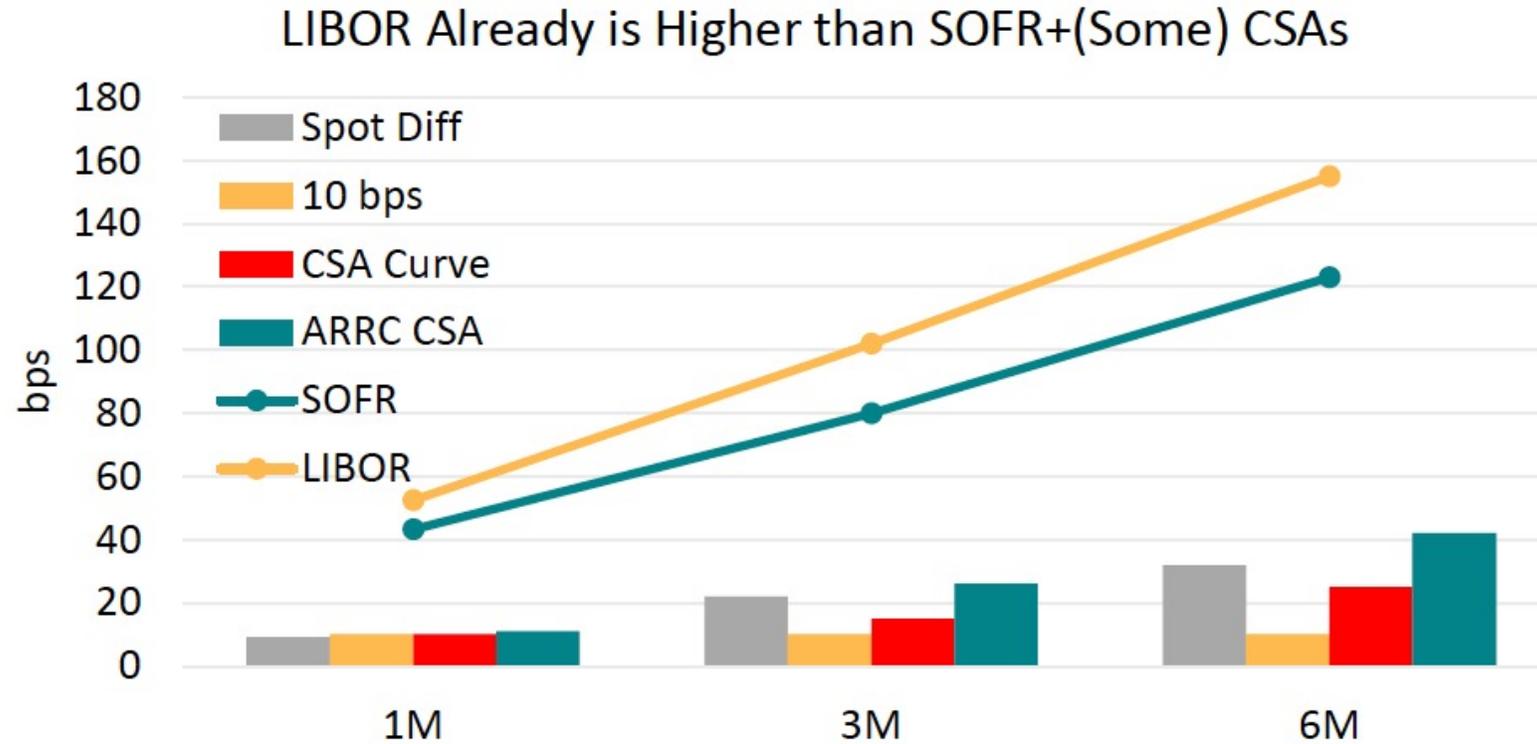
*\* It is possible that the FCA compels publication of USD LIBOR on a synthetic basis for some time, but FCA has not made any statement so far that they intend to do so and market participants should not assume that they will.*

## Variety of Loan Fallback Approaches



*35% of outstanding loans are hardwired, meaning 65% of loans will require an amendment process to transition.*

## Early Transition May Be Attractive For Borrowers



Source: CME Group, WSJ, LSTA Calculations

- LIBOR is climbing faster than SOFR, which may make SOFR + spread adjustment cheaper than LIBOR for the borrower
- If/when this becomes significant, it may incentivize borrowers to fall back early

## Early Opt-in Elements

Category of Fallback Language	Includes an Early Opt-in Election?	If So, Lender Consent Threshold?	Replacement Rate	CSA	Key Considerations
<b>ARRC Hardwired</b>	✓	Negative consent of Required Lenders	Term SOFR	ARRC	<ul style="list-style-type: none"> <li>“Benchmark Replacement Conforming Changes” need to be adopted by Administrative Agent</li> </ul>
<b>ARRC Amendment</b>	✓	Affirmative consent of Required Lenders (RL)	Term SOFR	Likely, ARRC (given due consideration based on ARRC recommendation or market convention for the replacement of LIBOR)	<ul style="list-style-type: none"> <li>RL affirmative consent needed, but control over effectiveness</li> <li>Non-zero LIBOR floor needs to be included in amendment</li> </ul>
<b>“Everything Else”</b>	<p>Maybe.</p> <p>73% of outstanding “RL negative consent” loans</p> <p>70% of outstanding “no RL consent” loans</p>	Typically, same consent threshold for early opt-in and transition event	<u>Depends</u> . Could be Term SOFR in some cases but depends on the drafting in the relevant credit agreement	<u>Depends</u> . Could be ARRC in some cases but depends on the drafting in the relevant credit agreement	<ul style="list-style-type: none"> <li>CSA included?</li> <li>How is the relevant market convention described?</li> <li>Non-zero LIBOR floor needs to be included in amendment</li> </ul>

# Sample LIBOR Fallback Risk Analysis

ISIN	Issuer Name	Deal Type	Index	Doc Type	LIBOR BAU	LIBOR Fallback (Initial)	LIBOR Fallback Terms and Definitions of Relevance	Category	MAA Analysis	MAA Assessment
US36641DAD21	GARRETT BORROWING LLC	BKLN	US0001M	Credit Agreement	"LIBO Screen Rate" means, for any day and time, with respect to any Eurocurrency Borrowing (a) for any applicable currency (other than Australian Dollars) and for any Interest Period, the London interbank offered rate as administered by ICE Benchmark Administration	(or, in the event such rate does not appear on a Reuters page or screen, on any successor or substitute page on such screen that displays such rate, or on the appropriate page of such other information service that publishes such rate from time to time as selected by the	"Alternate Base Rate" means, for any day, a rate per annum equal to the greatest of (a) the Prime Rate in effect on such day, (b) the NYFRB Rate in effect on such day plus 1/2 of 1% and (c) the Adjusted LIBO Rate for a one month Interest Period on such day (or if such day is not a	Amendment	Standard credit agreement specifying that the borrower will pay (a) the Prime Rate in effect on such day, (b) the NYFRB Rate in effect on such day plus 1/2 of 1% and (c) the Adjusted LIBO Rate for a one month Interest	Credit Agreement Fallback; Likely to convert to Prime without remediation.
US13607RAE09	CANADIAN IMPERIAL BANK OF COMMERCE	CFIN	US3MLIB	Prospectus Supplement	On any interest determination date, LIBOR will be equal to the offered rate for deposits in U.S. dollars having an index maturity of three months, in amounts of at least US\$1,000,000, as such rate appears on "Reuters Page LIBOR01" at approximately 11:00 a.m., London time, on such	If no offered rate appears on "Reuters Page LIBOR01" or Bloomberg L.P. page "BBAM" on an interest determination date at approximately 11:00 a.m., London time, then we will select four major banks in the London interbank market and will request each of their principal London		Amendment	Initial LIBOR fallback language specifies a conversion to a fixed rate at the last available LIBOR setting. However, if LIBOR has been permanently discontinued then the Calculation agent will use "an	Flexible Fallback; Likely to convert to Term or Compound SOFR, but all discretion is left to the Issuer and Independent Financial Advisor.
XS1543100702	CANADIAN IMPERIAL BANK OF COMMERCE	CFIN	GBP3MLIB	Prospectus	Rate of Interest  Where the Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each	(b) if, on any Interest Determination Date, no rate so appears or, as the case may be, if fewer than two quotations for the Reference Rate so appear on the Relevant Screen Page or if the Relevant Screen Page is unavailable, the Calculation Agent will request appropriate		Inadequate	Polling waterfall with ultimate conversion to fixed at last available GBP LIBOR setting.	Inadequate Fallback
US92917NAJ72	VOYA CLO 2019-1 R Ltd.	CLO	US3MLIB	First Supplemental Inden	"LIBOR": (a) With respect to Collateral Obligations or Eligible Investments, Libor determined under the related Underlying Instruments and (b) with respect to the Floating Rate Notes, for any Interest Accrual Period (or, in the case of the first Interest Accrual Period,	"Reference Rate": With respect to (a) Floating Rate Notes, the greater of (i) zero percent and (ii) (A) LIBOR, (B) under the circumstances provided in the following paragraph, the Fallback Rate or (C) if a Reference Rate Amendment is entered into, for each Interest Accrual Period	"Asset Replacement Percentage": On any date of calculation, as determined by the Investment Manager, a fraction (expressed as a percentage) where the numerator is the outstanding principal balance of the floating rate Collateral Obligations being indexed to a reference rate	Hardwired	ARRC Hardwired fallback language was inserted into this First Supplemental Indenture. This deal will likely convert to Term or Compounded SOFR plus an industry-accepted spread adjustment, but the	Adequate Fallback; Likely to convert to Term or Compounded SOFR plus an industry-accepted spread.
US3136AEHA87	Fannie Mae	CMO	US1MLIB	Omnibus Supplement	LIBOR. If a class of certificates accrues interest based on the London interbank offered rate ("LIBOR"), we will calculate LIBOR on each index determination date using either the BBA Method or the LIBO Method, both as defined below. For purposes of calculating LIBOR, unless otherwise	If we are unable to use the BBA Method on any index determination date, we will use the LIBO Method.  LIBO Method. This method uses the quotations for one-month U.S. dollar deposits offered by		Hardwired	The additional fallback language in this deal comes from the Fannie Mae Omnibus Supplement dated 5/27/2020, which inserted ARRC-like fallback language into every REMIC deal issued prior to the end of July	Adequate Fallback; Likely to convert to Term or Compounded SOFR plus an industry-accepted spread.
US3136B5MH53	Fannie Mae	CMO	US1MLIB	Prospectus	LIBOR. If a class of certificates accrues interest based on LIBOR, we will calculate LIBOR on each index determination date using the ICE Method. Under the ICE Method, LIBOR is calculated on each index determination date based on the rate, expressed as a percentage per annum,	No prediction can be made as to future levels of the LIBOR index or as to the timing of any changes in the index calculation or methodology, each of which will directly affect the yields of the certificates. On July 27, 2017, regulatory authorities in the United Kingdom announced		Hardwired	The additional fallback language in this deal is in Exhibit B, which contains ARRC-like fallback language. It is highly likely that this deal will convert to Term or Compounded SOFR plus a spread adjustment.	Adequate Fallback; Likely to convert to Term or Compounded SOFR plus an industry-accepted spread.
US3137BKR516	Freddie Mac	CMO	US1MLIB	Omnibus Amendment	We calculate the Class Coupons of LIBOR Classes for each Accrual Period (after the first) on the second business day before the Accrual Period begins (an "Adjustment Date"). For this purpose, a "business day" is a day on which banks are open for dealing in foreign currency and	if LIBOR determined under the ICE Method does not appear on the Designated Page as of 11:00 a.m. (London time) on an Adjustment Date, or if the Designated Page is not then available, LIBOR for that date will be the most recently published LIBOR determined under the ICE Method. In the		Hardwired	The additional fallback language in this deal comes from the Freddie Mac Omnibus Amendment dated 5/27/2020, which inserted ARRC-like fallback language into specific REMIC deals. Therefore, it is highly likely that	Adequate Fallback; Likely to convert to Term or Compounded SOFR plus an industry-accepted spread.
US902973AZ90	U.S. Bancorp	EQTY	US3MLIB	Prospectus Supplement	For any dividend period beginning on or after April 15, 2027, three-month LIBOR shall be determined by the calculation agent on the second London business day immediately preceding the first day of such dividend period in the following manner:	• If the rate described above does not appear on the Designated LIBOR Page, three-month LIBOR will be determined on the basis of the rates at which deposits in U.S. dollars for a three month period commencing on the first day of that dividend period and in a principal amount of not		Inadequate	Polling waterfall with ultimate conversion to fixed at last available LIBOR setting.	Inadequate Fallback

## Key Takeaways for Remediation

- Fallback language is not standardized, and care must be taken to avoid unexpected results
- Refi Risk is significant for some deals
- Amendment requests may come fast and furious!
  - Over 60% of outstanding loans require some level of lender consent
  - Lenders need to be operationally ready and properly resourced to respond to amendment requests
- Hardwired Fallbacks: Your work is not done!
  - Administrative agent needs to effect conforming changes to properly implement Term SOFR



## Federal LIBOR Legislation

- Federal legislation takes precedence over state legislation
- Federal Reserve rule-making required within 180 days (~ 9/12/2022)
- Synthetic LIBOR will not be allowed as it is “not representative”
- Federal Reserve selects LIBOR replacement and spread adjustment that qualifies for safe harbor

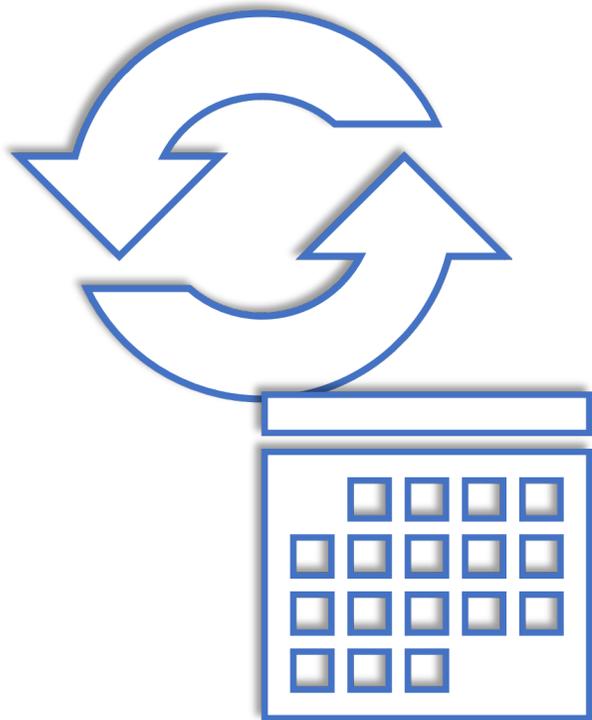
**TERM SOFR MAY NOT BE ALLOWED!!!**



*What are the accounting implications surrounding the LIBOR transition as participants move towards an RFR environment?*

# Reference Rate Reform (ASU 2020-04)

## Transition From LIBOR and Other Reference Rates



- Relief from modification accounting if **all** criteria met:
  - Contract references a rate that is expected to be discontinued
  - Modified terms directly replace (or have potential to replace) this reference rate
  - Changes to any other terms in the contract must generally be related to the replacement of reference rates
- Contracts that meet criteria would:
  - **Not** require remeasurement at modification date or reassessment of prior accounting determination
  - Apply accounting relief consistently for eligible contracts within ASC topic
- Contracts that don't meet criteria or relief not elected:
  - Would apply appropriate derecognition or modification accounting

# Reference Rate Reform (ASU 2020-04)

## Transition From LIBOR and Other Reference Rates

### Examples of modification related and unrelated to LIBOR

#### Related to LIBOR Reform

- Changes to referenced interest rate index
- Modification to spread adjustments
- Changes to reset period, reset dates, day-count or business day conventions, payment dates or frequency or repricing calculation
- Changes to strike price of an existing interest rate option
- Changes to term necessary to comply with laws or regulations

#### Unrelated to LIBOR Reform

- Changes to Notional amount
- Changes to the maturity date
- Change from a reference rate to a fixed rate
- Changes to the loan structure (e.g., term loan to a revolver loan)
- Changes to the priority or seniority of an obligation in the event of default or liquidation

### FASB Optional Expedients for Contract Modifications

**Receivable and debt.** Modifications within the scope of Topic 310, Receivables, and 470, Debt should be accounted for by prospectively adjusting the effective interest rate.

**Leases.** Modifications within the scope of Topic 842 Leases, should be accounted for as a continuation of the existing contract with no reassessments of lease classification, discount rates, or lease payments.

**Derivatives and Hedging.** Modifications within the scope of Topic 815-15, Derivatives and Hedging – Embedded Derivatives, won't require a reassessment of whether or not an embedded derivative should be accounted for as a separate instrument.

**Lack of explicit guidance.** Modifications for which explicit guidance isn't provided should be accounted for as a continuation of those contracts without having to reassess previous determinations.

# Reference Rate Reform (ASU 2022-XX)

## Transition From LIBOR and Other Reference Rates

### Overview of Optional Expedients under US GAAP for Hedge Accounting

#### Deferral of Sunset Date of Topic 848:

- The FASB's tentative deferral of the sunset date of Topic 848 from December 31, 2022 to December 31, 2024
- To better mitigate financial reporting challenges during the transition period of LIBOR to alternative reference rates.

#### Amendments to the Definition of the Secured Overnight Financing Rate

- Previously, the definition of the SOFR Swap Rate was specific to the OIS rate and the FASB planned monitor the developments of the forward-looking, term-based version of the SOFR rate (SOFR Term) and consider including SOFR Term as a benchmark interest rate in the future.
- Under the newly proposed ASU, the Board would expand the definition of SOFR to include SOFR Term.
- The proposed inclusion of SOFR Term in the Master Glossary Definition would allow for fair value hedges to hedge with SOFR Term

## Please Contact Us If You Have Any Follow-up Questions or Want a Free Consultation?



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