

FUND FINANCE FRIDAY

LTSA Concept Credit Agreement Adds LIBOR Transition Guidance

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Cadwalader continues to take a leading role in the development of fallbacks and replacement benchmark rates for LIBOR.

As part of this process, Cadwalader recently worked closely with the Loan Syndications and Trading Association (LSTA) to develop a concept credit agreement, available to certain members of the LSTA's working groups, that references a compounded average of SOFRs calculated in arrears. The calculation of "Compounded SOFR" in the concept credit agreement provides for a lookback with observational shift. The observational shift applies the correct weighting to the SOFR rates, allows for the use of a published compounded SOFR index and is easier to align with hedges that have established the same observation period.

The concept document does not include cost-plus funding provisions to reflect that SOFR is not designed to be reflective of lenders' cost of funds. It does include a modified version of the Federal Reserve's Alternative Reference Rates Committee's (ARRC) "amendment approach" fallback language recommendation, which addresses a transition from SOFR in the first instance and is designed to address potential future transitions. The concept document was not designed to reflect standard market practices but rather to allow market participants to further familiarize themselves with replacement benchmark alternatives that can assist with LIBOR transition planning.

Cadwalader is pleased to present a full panel on the LIBOR transition at our annual Finance Forum this Thursday (October 17) in Charlotte. We hope to see you there.