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AFME "call to action" for active transition of LIBOR linked securitisations

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Less than 12 months now remain before the continuation of panel-based LIBOR can no longer be guaranteed.

The UK authorities have stated that it is "in the interests of financial markets and their customers that the pool of contracts referencing LIBOR is ***shrunk to an irreducible core***[1] ahead of LIBOR's expected cessation, leaving behind only those contracts that genuinely have no or inappropriate alternatives and no realistic ability to be renegotiated or amended."[2] Such contracts are commonly referred to as "tough legacy" transactions.

AFME calls on all market participants to join us in actively transitioning as many transactions as possible to identify and reduce the stock of "tough legacy" securitisations to this "irreducible core" well in advance of the end of 2021.

If not already done, we urge issuers and investors to contact each other via established channels (set out in transaction documentation) in order to identify and implement the required practical next steps for the bonds affected.

AFME (and other trade associations) have been engaged in this subject for some time and stand ready to help facilitate cross-market discussions where required.

While draft legislation has been laid before Parliament to assist in the resolution of "tough legacy" transactions, the UK authorities have made clear that "Parties who rely on regulatory action … will not have control over the economic terms of that action. Moreover, regulatory action may not be able to address all issues or be practicable in all circumstances …".[3]

The FCA has further pointed out that although it may be given the powers to facilitate a "synthetic" LIBOR to be developed and used, it will not be bound to use such powers.

In view of the potential deterioration in liquidity in LIBOR-based instruments and other financial and non-financial risks associated with inaction, including the loss of control over economic terms, ***if there is any solution for such transactions that enables active transition to the relevant risk-free rate to be effected then AFME urges that that solution should be considered as a matter of urgency*** in line with the FCA's expectation that market participants should effect a material reduction in the stock of outstanding LIBOR-based FRNs by the end of Q1 2021.

[1] AFME emphasis.
[2] Statement of H. M. Treasury, 23rd June 2020.
[3] Ditto.

Association for Financial Markets in Europe
London Office: 39th Floor, 25 Canada Square, London E14 5LQ, United Kingdom T: +44 (0)20 3828 2700
Brussels Office: Rue de la Loi 82, 1040 Brussels, Belgium T: +32 (0)2 788 3971
Frankfurt Office: Bürohaus an der Alten Oper, Neue Mainzer Straße 75, 60311 Frankfurt am Main, Germany
T: +49 (0)69 153 258 967
www.afme.eu

AFME will continue to work with its members, other trade associations and all market participants to further this goal and we welcome engagement from the broadest set of stakeholders.

AFME Contacts:

Richard Hopkin	**Anna Bak**
richard.hopkin@afme.eu	anna.bak@afme.eu
+44 (0)20 3828 2698	+44 (0)20 3828 2673