

LIBOR TRANSITION: ARE YOU READY?

LIBOR transition is here – Swiss borrowers at the ready

We are now in the sixth month of 2021 and LIBOR transition deadlines are fast becoming a stark reality. The regulatory message remains ever clear: LIBOR transition is happening, the focus must be on active transition and this is the year when loan market participants must be ready to lend and borrow based on risk-free rates (“RFRs”).

The transition from LIBOR to RFRs affects everyone in the syndicated loan market. We previously conducted an interview on the borrower approach to LIBOR transition with National Express. In this interview, we shine a spotlight on the approach of borrowers in the Swiss market to the transition.

Kam Mahil, Senior Director – Legal at the LMA spoke to Markus Bieri, Corporate Finance & Treasury at Holcim Ltd about his views on the borrower approach to LIBOR transition.

Markus, thank you very much for agreeing to share your views and experiences on this important topic.

My pleasure, Kam. Happy to share the Swiss perspective.

Aside from your day job Markus, you are also the Vice President of the SwissACT (Swiss Association of Corporate Treasurers) and we have sat together on many meetings of the Swiss National Working Group. What are you hearing from corporates more broadly in respect of LIBOR transition? Do you feel they are prepared for the transition and are there particular areas which borrowers have a focus or questions on?

I believe it was a slow start as the topic wasn’t tangible enough and the situation around Covid led to other short-term priorities in most of the treasury departments. But over time

when more information was available about the replacement of LIBOR and the help of several events organised by the SwissACT and Swiss National Bank (SNB), treasurers got up to speed and addressed the topic internally.

What doesn’t help at all, especially for international companies with intercompany loans in several currencies is the fact that there isn’t any clarity about the potential use of fixed term rates such as 30 or 90 day SOFR Averages or RFRs on a compounding basis for intercompany loans. For many corporates, adjusting intercompany loans is the most labour intensive work to be done, and certainty about the instruments to be used is key from a legal and tax point of view. It’s a nice approach to make life easier, but for the moment, the result is the opposite until there is a clear statement for the tax authorities in all the jurisdictions involved that such term rates would be accepted.

On the syndicated lending side, in the last year we have seen the publication of conventions for compounding in the key LIBOR currencies. Whilst there are some differences between the conventions in different currencies, there is flexibility to align them. How helpful have you found the publication of loan conventions?

Based on my experiences, all the publications helped to find a common ground for this transition. Past transactions were based on what was available in the market, publications and recommendations. New transactions were based on previous transactions. Over time, a kind of market standard got established with minor changes to be applied.

Alignment is needed in the cross-border international business. But for local products and in case no hedging is required, different conventions can be applied without impacting the global market in a negative way.

Given the differing transition timelines between jurisdictions, continuing debate in the USD domestic market as to the most appropriate rate to transition to and the continuation of EURIBOR, how is that impacting your approach to multicurrency facilities?

This isn’t a big issue. As long as our treasury management system can handle all the potential interest calculation methodologies, different approaches and different time lines can be handled without any additional efforts. In addition, RFRs are already available for all the currencies in scope. Therefore a multicurrency facility can be amended to a RFR approach only.

There are various practical and commercial questions which come up on LIBOR transition, including the approach to credit adjustment spreads (“CAS”) for active transition but also for new deals based directly on RFRs going forward. What is your view as a borrower on these topics?

This is a very interesting question. I believe the current focus is on the transition period; meaning converting the existing contracts and establishing new contracts, both under the “like-for-like” approach to LIBOR. As of 2022 the situation will change. As LIBOR cannot be the benchmark anymore, there is no reason to apply CAS on a new contract. This has to be part of the margin. As there are products, where customers

pay commitment fees based on the margin applied, amendments to such products will be needed to reflect the current product going forward. These discussions and potentially final product shaping will come in 2022 only, once the big transformation in most of the currencies has come to an end.

Systems readiness has always been a hot topic when it comes to LIBOR transition (both on the lender and treasury management system side). Do you have systems in place to deal with RFRs?

Based on some surveys the National Working Group in Switzerland did with the vendors, the IT companies are working on the respective system upgrades. Some of the vendors have already upgraded the treasury management systems (TMS) and the respective customers can apply RFRs already. From a customer perspective, the switch from LIBOR to RFRs can only be executed once the TMS is ready. Therefore the sooner all the vendors make these new releases available, the earlier the customers can adapt to the new environment and transition can be performed.

Interaction of loans and hedging is another key topic. Regulators have recently commented that corporate adherence to the ISDA protocol has been lower than expected. How have corporates viewed the ISDA protocol and alignment with hedging?

Regarding hedging, I have a very pragmatic approach. Even if not every detail will be ready and solved by the beginning of 2022, whenever there is a possibility for arbitrage, the market will close this gap immediately. Therefore I am convinced that hedging any exposure will as well be possible post LIBOR. New market conditions might create new products.

Regarding adherence to the ISDA protocol, I guess this was only in the focus of international companies with many banking relationships. Mid to smaller size companies can deal with these changes on a bilateral basis.

When it comes to LIBOR transition for corporates, it's certainly not all about loans. LIBOR transition can impact corporates in other ways, for example, in respect of intercompany loans (which you have already mentioned) and commercial contracts. How do you view the transition in respect of these topics?

Most of the corporates have a very good and centralised view on intercompany loans as they are kept in a TMS. Once the new approach is defined, these loans can be adjusted. The biggest concern here is to determine the right approach as several possibilities might be available, but not yet confirmed (as I mentioned earlier). For all the other potential exposures, which aren't managed centrally nor kept in a single TMS system, a screening of the company is needed. This is quite an intensive piece of work as not everyone in a company is aware of the cessation of LIBOR. This means a lot of meetings and internal communications on an ongoing basis are needed to make all the potential departments aware and support them in case contracts have to be amended. It makes sense to have cross-functional teams in place to capture all the exposures and find the best solutions post-LIBOR.

From your perspective, is there anything else that you think is needed to support LIBOR transition for corporates?

I believe a lot of information is available in the market. For us treasurers it was important to be part of the National Working Group to have access to the latest information and to best share our views and interests in this journey. When planning our SwissACT events for 2021, LIBOR transition was one of our key topics for this year. We want to support our members as good as we can and therefore our June event is fully committed to the LIBOR transition. After this event, SwissACT members can always get back to the speakers, in case more support is needed. Therefore we believe that most of the corporates in Switzerland are well prepared for the transition or have access to the relevant support, if needed at a later date.

Markus, thank you so much for taking the time to answer all of these questions. The borrower perspective is really key in this whole transition. This interview will be very helpful for other corporates, lenders and advisers.

My pleasure, Kam.



Markus Bieri,
Corporate Finance & Treasury
Holcim Ltd



Kam Mahil
Senior Director, Legal
LMA

To access the LMA LIBOR Microsite, please visit: www.lma.eu.com/libor.