OPEN LETTER TO LOAN MARKET STAKEHOLDERS

22 July 2024

BY EMAIL

Dear Loan Market Stakeholders,

Including but not limited to: Official Sector (Regulators), Central Banks, Supranational and Multilateral Agencies, Development Banks, Export Credit Agencies, Trade Associations, Borrowers, Financial Institutions, Institutional Investors, Law Firms, Advisers.

Re: Outreach and action to mitigate residual loan market transition risks in developing markets from cessation of Synthetic USD LIBOR

As we approach the end September 2024 deadline for cessation of the remaining synthetic USD LIBOR settings, we wanted to raise a call to action to loan market participants who are still in the process of USD LIBOR transition, as well as those who may not be prepared for, or aware of, the impending deadline. This is in light of potential concern relating to the final stages of transition in the loan markets which has been flagged to us by our members. Specifically, within developing market countries (for example, within Africa or parts of Asia) there has tended to be (and in some cases continues to be) a lower level of general awareness of, and potentially a lack of urgency around, the transition from LIBOR than in some other markets.

We recognise and are especially appreciative of the significant ongoing efforts by the Official Sector to facilitate transition including the recent timely FCA announcement on 28th June 2024 entitled 'Remaining synthetic US dollar LIBOR settings – 3 months to go', which we understand has also been communicated through various international channels. Such efforts have been highly effective in raising awareness, encouraging the right behaviour and ultimately resulting in a smooth transition to-date with most counterparties in the loan market having largely completed their transition activities. At the same time, the LMA and APLMA have been continuing their efforts to educate the loan markets specifically and support Official Sector messaging.

Nevertheless, as we approach the cessation date for the remaining settings of synthetic USD LIBOR, we believe there is considerable benefit in spreading as broadly as possible key transition messages across and within developing market countries (in addition to the recent FCA announcement), especially at a local level, to help mitigate any potential residual risks.

Background

In November 2022, the LMA raised initial concerns with the Official Sector relating to the relatively slow transition of US dollar loan facilities in developing markets. The letter flagged the significance of the US dollar to the loan market and, in particular, the widespread and diverse international mix of those markets with legacy exposure to USD LIBOR loan facilities. The wide scope, range and relative importance of USD LIBOR loan transactions remains particularly relevant for developing markets where non-local currency facilities to support trade, development and financing in general are almost invariably US dollar facilities.

Challenges continue to be posed by the diverse and varied universe of loan counterparties (both borrowers and lenders) covering the full spectrum and sophistication of institutions, as well as the involvement of sovereign or quasi-sovereign entities, regional development banks and other third parties where it can take time to get approvals. Whilst most have been transitioned, we understand that there are still a small number of transactions using synthetic USD LIBOR which need to be transitioned before end September. There is also a concern there may be undue reliance on 'cost of funds' as a fallback which can be problematic for lenders and borrowers as it may not be a workable permanent fallback for a number of reasons (including operational limitations and the difficulty of calculating the relevant cost).

The work of the Official Sector in raising awareness by sharing the letter more generally to reach a broader international audience had a positive effect. We believe one last call to action to spread the message more broadly across all loan market stakeholders would be extremely helpful.

Call to Action

From experience, we recognise the impact on the dynamics of LIBOR transition when the Official Sector and loan market participants collectively enhance awareness ahead of deadlines and push for maximum preparedness at all levels. We appreciate we are at a relatively late stage with an end September deadline but believe a final call to action across the board at an international, local and regional level could make a real difference.

If you haven't yet completed your USD LIBOR transition activities, action should be taken now to be fully prepared ahead of cessation of the remaining synthetic USD LIBOR settings. Time is running out ahead of the September deadline. Please ensure all your counterparties are ready and pass this message on.

As noted earlier, we are highly appreciative of the continued efforts by the Official Sector (at all levels) and its critical role throughout the transition, including the recent FCA announcement. We believe, however, that all those with an interest in the efficient functioning of the loan markets have a shared responsibility to ensure maximum preparedness for the forthcoming deadline. **We are, of course, ready to assist, as we have done over the years, in whatever way we can to help mitigate potential risks and together facilitate smooth transition in the loan markets and would ask for any specific concerns or issues to be raised directly with us at lma@lma.eu.com and info@aplma.com.**

Yours sincerely,

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