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Don't get caught
in the LIBOR
bottleneck

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LIBOR considerations

The London Interbank Offer Rate (LIBOR) is a global benchmark interest rate used to set financial deals.

Every day, leading banks submit how much they would charge other banks for short-term loans and the average is taken to find LIBOR. It's tied to trillions of financial institutions and is used as a measure of trust and confidence in their financial health – while also helping decide the price of other transactions.

But LIBOR has led to scandal. Because the submitted rates are estimates and not based on transactions, some traders have been found

contributing false figures to influence results. Banks that contribute to LIBOR are keen to stop the practice, and regulators prefer reference rates. From 2022, contributing banks won't have to submit rates to LIBOR. Although that feels far away, the markets have a lot to do to transition from LIBOR to new Risk-Free Rates (RFRs).

National regulators made clear there should be a 'market solution' to this problem and they won't apply a unilateral policy or regulatory fix. Instead, underlying documentation covering derivatives, loans or bonds may have to be amended on a contract-by-contract basis.

The bonds challenge

Estimates on bonds vary. It's generally agreed that the problem affects hundreds of bond issuers and many thousands of series of bond issues.

There's a strong belief that bond trustees won't all agree to making changes that have economic impact, like a change in reference rate, so bond issuers will need consent from bondholders.

Getting consent from bondholders isn't necessarily straightforward as requisite consent thresholds vary depending on the terms of each bond series. They can be 75%, 90% or even need unanimous consent. This is especially difficult when dealing with large numbers of mostly anonymous or invisible bondholders.

To overcome this challenge, issuers and advisers are examining different liability management exercises (LMs), like exchange offers, where bondholders swap their LIBOR-linked notes for (otherwise identical) notes linked to a different reference rate.

Reaching agreement

Another big challenge is the lack of agreement about the rates that should replace LIBOR, and whether they can achieve the same results for both issuers and investors. In a market so focused on precedent for pricing decisions, there seems to be a 'wait and see' approach that has delayed the serious implementation of transitions in the bond markets.

It's little wonder there has so far been only one well-heralded exercise to transition an existing bond away from LIBOR to date, which was ABP Finance in June 2019.

The bottleneck

The clock is ticking for a very large number of bonds, and many in the market predict a 'tidal wave' of LMs as we approach 2022. There is also concern about the capability of market participants, like lawyers, agents, clearing systems, custodians and investors, to support a smooth transition process.

The message from regulators is clear. Act quickly to recognise and address the problem.

How D.F. King can help

Why choose our bondholder identification services?

- We engage with top holders first and use intelligence to maximise participation
- You'll work with analysts with more experience than any other provider
- Our typical identification rate is 50% - 70% on Eurobond IDs
- Our global presence is wider than any other independent agent
- We have mutually-beneficial relationships with custodians & investors thanks to our LM work
- You'll have clarity of the chain of ownership of debt from custodians to beneficial owners
- You'll receive comprehensive reports with unparalleled ownership intelligence, by category and geography

And why choose our liability management agent services?

- We have a proven track record of handling more LM deals than anyone else
- We are regularly top-ranked by number of LM deals each year
- We are the only LM agent with teams in New York, London and Hong Kong, so we can help issuers, intermediaries and investors around the world

For help with bondholder identification or liability management agent services, please contact our team of experts via:

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