Dear ITFA and BAFT Colleagues,

As you are aware, the LIBOR interest rate benchmark, along with other term-based interbank reference rates, is in the process of being phased out and it is anticipated that it will be discontinued after the end of 2021.

The ITFA Market Practice Committee (MPC) would like to highlight a particular consequence of this for trade finance, especially in the context of standardised Master Participation Agreements (MPAs).

Trade Finance requires a forward-looking reference rate

Many ITFA and BAFT members likely have internal teams responsible for managing the transition from LIBOR. Transition to the Sterling Overnight Index Average (SONIA) for Sterling, or Secured Overnight Financing Rate (SOFR) for US Dollar benchmarks is expected for most banking products. However, since these rates can only be used in arrears to determine interest due for any given period, these are largely unsuitable for a number of Trade Finance products where a rate must be known in advance, e.g. discount products where the net present value of future cash flows must be calculated at the outset of the transaction.

To accommodate the requirement for forward-looking term rates, the Working Group on Sterling Risk-Free Reference Rates is currently developing a set of Term SONIA Reference Rates (TSRR), expected to be published in Q2 2020, in advance of a Q3 2020 target date to cease issuance of GBP LIBOR-based cash products that mature beyond end-2021.

Read more via: Use Cases of Benchmark Rates – Paper from the Working Group on Sterling Risk-Free reference Rates

Other jurisdictions are similarly reviewing how to address the demise of LIBOR and replace the term reference rates applicable to them.

Uncertainty around the final TSRR is problematic for standardised MPAs

The transition from LIBOR and other benchmarks will require an update to wording of industry standardised documentation, including BAFT/ITFA MPAs. This is especially applicable to terms relating to default / late payment interest rates.

It is not possible to update the MPA wording until we have a clearer indication of exactly what the applicable TSRR will look like.

BAFT and ITFA working on fallback wording for standardised MPAs

BAFT and ITFA will work to produce an updated standard wording for the new benchmark replacement as soon as possible. In the meantime, please consider waiting for this wording and avoid adding institution-specific fallback wording in MPAs so as to preserve consistency of documentation in the market.

As an alternative, for those concerned about longer-dated transactions, we offer a high-level disclaimer for inclusion in marketing materials and term sheets, included on the following page.

If you have any questions or comments relating to this issue, please feel free to contact the ITFA MPC via **info@itfa.org**, or BAFT via **info@baft.org**.

High level disclaimer for inclusion in marketing materials and term sheets

The London Interbank Offered Rate or "LIBOR" is an interest rate benchmark administered by ICE Benchmark Administration Limited. Please note that LIBOR is likely to be discontinued after the end of 2021 and will need to be replaced with an alternative benchmark which will be calculated differently from LIBOR. Any change in the interest rate benchmark used in a product may have an impact on that product, whether to its value, the purpose that product is intended to serve, secondary uses such as discount rates or performance ratio calculations, or otherwise.

You can find general information on LIBOR discontinuation via the FCA website:
https://www.fca.org.uk/markets/libor

Note that institution name is not providing any advice or recommendation nor is it assuming a responsibility to provide advice. Where relevant, institution name will engage with its customers to transition to a new benchmark/rate in due course. In the meantime, if you wish to receive advice you should seek independent professional advice on the potential impact of LIBOR discontinuation on your business.