

What the LIBOR Phase-out Means for Debt Capital Market Participants

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The London Interbank Overnight Rate (“LIBOR”) is an interest rate calculation that is used globally for purposes of debt capital market transactions including bond issuances, loans, and derivatives. In particular, LIBOR underpins many Floating Rate Notes (“FRNs”), which use the rate as a reference for purposes of calculating coupon. The intention is that LIBOR reflects the overall health of the financial system, which in turn is reflected in the coupon rate to be paid/received with regards to FRNs.

LIBOR is calculated by taking a cross-section of the average interest rate at which one bank can borrow from another bank. In the last several years, however, LIBOR has been subject to a scandal of rigging, fraud, and collusion amongst these banks. As a result, the UK Financial Conduct Authority (“FCA”) has urged banks and institutions to move to other benchmarks by 2021, and will no longer require or encourage banks to publish these rates following 2021.

LIBOR underpins over \$300 trillion of global loans and its phase-out presents issues for all debt instruments that use LIBOR as a reference rate. Any issuers of FRNs or other debt instruments should be aware of this development and should take a closer look at their debt. Subsequent action may be required in light of the imminent discontinuation of LIBOR. Issuers thinking about issuing debt in the future should also be aware that the FCA has urged firms to start thinking about using alternative benchmarks and treat the LIBOR discontinuation event “as something that will happen and which they must be prepared for.”

For more information about the phase-out and what it means for participants who are U.S. public companies, see our recent eUpdate here:
[dorsey.com/newsresources/publications/client-alerts/2019/04/the-libor-phase-out](https://www.dorsey.com/newsresources/publications/client-alerts/2019/04/the-libor-phase-out).

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