December 1, 2020

LIBOR Termination May Be Postponed to 2023

On November 30, 2020, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corp. and the Office of the Comptroller of the Currency issued a joint statement (the Joint Statement) on LIBOR transition. The purpose of this statement was to encourage banks to transition away from U.S. dollar LIBOR (USD LIBOR) as soon as practicable while providing sufficient time for many USD LIBOR-based contracts to mature before USD LIBOR experiences disruption.

- ***Extension of USD LIBOR.*** ICE Benchmark Administration, in its capacity as administrator of USD LIBOR, will consult on its intention to extend publication of USD LIBOR (other than one-week and two-month tenors) by 18 months. Instead of discontinuing publication on December 31, 2021, USD LIBOR (other than one-week and two-month tenors) would continue to be published until June 30, 2023.
- ***LIBOR Phase Out.*** Even though USD LIBOR would continue to be published through June 30, 2023, the Joint Statement calls on banks to cease entering into new contracts that use USD LIBOR as a reference rate by no later than December 31, 2021, and if practicable, as far in advance of that deadline as possible. Should banks enter into new contracts before that deadline that use USD LIBOR as a reference rate, those banks are encouraged to include clearly defined alternative reference rate provisions.
- ***Avoiding Market Disruption.*** The Joint Statement notes that extending the publication of certain USD LIBOR tenors for an additional 18 months would allow most legacy USD LIBOR contracts to mature in accordance with their terms without disruption.
- ***Impact on Documentation.*** Financial institutions are already including USD LIBOR replacement language in their contracts, so this extension should have little impact on documentation of new contracts. However, this extension could help avoid an onslaught of amendments to legacy contracts at the end of 2021 that would overwhelm borrowers and lenders alike.

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