



NAMA Alert: LIBOR Exits June 30th

LIBOR ceases to be the typical reference rate in all types of financial contracts, including those related to various state and local government financings including municipal securities, bank loans, repurchase agreements, purchasing card contracts and derivatives on June 30, 2023. Following this date, no LIBOR reference rate information will be determined or published. For a majority of financial contracts, SOFR (or a LIBOR replacement rate consisting of SOFR + spread) will replace all remaining LIBOR reference rates. SOFR (Secured Overnight Financing Rate) is a rate administered by the New York Federal Reserve who also published the average SOFR rate over varied timeframes (for example –30 days, 90 days). Term SOFR, such as 1-month and 3-month, is published by the CME group.

Municipal advisors that are contracted with clients on financings where LIBOR is referenced, should discuss with clients the reference rate language in these contracts. In contracts where LIBOR is referenced, and the contract also includes a fallback reference rate, this fallback rate could come into effect on July 1. It is important for MAs, their clients and the deal team to determine if this fallback rate has any disadvantages associated with its implementation. Where there is a fallback reference rate listed that is not based on SOFR, a contract may still be amended to have a relevant SOFR replace LIBOR as the primary reference rate and not have a fallback rate (such as Prime) come into effect. SOFR replacing LIBOR is an accepted practice across the market. In many cases, if a contract does NOT have a fallback rate listed, then according to Regulation ZZ, which implemented the *Adjustable Interest Rate (LIBOR) Act*, the relevant SOFR will automatically replace LIBOR starting July 1.

As each financing and terms therein are different, each contract should be evaluated for how the ceasing of LIBOR should be addressed. MAs and their clients should also discuss any changes to documents related to municipal securities with the client's bond counsel. For derivative contracts, it is also important for a swap advisor to review what relevant SOFR rate is the best match for the terms of the swap. Issuers should also discuss with counsel if any disclosures should be made for investors to know that a reference rate change has been made in various contracts related to municipal securities.

Link to New York Fed Web site with SOFR information, including daily rate information:
<https://www.newyorkfed.org/markets/reference-rates/sofr>

Link to CME Term SOFR information:
<https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2023/ARRC-Term-SOFR-Scope-of-Use-Best-Practice-Recommendations.pdf>

Link to Ballard Spahr overview of the LIBOR Transition Rule (*LIBOR Act* and Regulation ZZ):
<https://www.ballardspahr.com/Insights/Alerts-and-Articles/2022/12/Fed-Issues-Final-USD-LIBOR-Transition-Rule-for-Tough-Legacy-Contracts>

GFOA Libor Resource Center:
<https://www.gfoa.org/libor>