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Special Commentary *from the Investment Advisory Group*

LIBOR Transition: Facts & Potential Impacts on Investment Holdings

At the end of 2021, the London Inter-bank Offered Rate (LIBOR) is scheduled to be permanently retired. We outline a few of the key facts to know about the transition away from this important reference rate – and what it may mean for your portfolio.

What is LIBOR?

The London Inter-bank Offered Rate (LIBOR) is an interest rate average calculated from estimates submitted by the largest banks in London, with its seven total rates ranging in duration from overnight to one year. It has served as a primary benchmark for short-term interest rates globally since the 1980's.

The LIBOR Sunset

Due to a shrinking number of bank submissions, their funding rates and the lack of a true underlying rate to reconcile the survey results, LIBOR has been deemed inadequate and will sunset at the end of 2021. The US Federal Reserve's (Fed) Alternative Reference Rate Committee (ARRC) has named the **Secured Overnight Financing Rate (SOFR)** as the recommended replacement for US dollar denominated instruments which currently reference LIBOR (or USD LIBOR).

LIBOR vs. SOFR – Key Differences

LIBOR	SOFR
Bank-to-bank lending rate (credit risk)	Risk-free rate (US Treasuries-based)
Based on submissions/judgement call	Transaction-based
Term structure with 7 tenors	Overnight rate only (requires calculations)
Unsecured	Secured by US Treasury holdings
Lower Volume ($1 billion/day)	Higher Volume ($1 trillion/day)

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The transition away from LIBOR will affect areas throughout global finance, such as commercial and consumer debt and various financial assets. Focusing specifically on investment vehicles clients may hold in their portfolios, these are the most common security types that reference LIBOR:

- Floating rate notes (commonly issued by companies and municipalities)
- Structured notes and CD's
- Fixed-to-float or variable rate preferred stock
- Variable rate corporate bonds
- Securitized debt (RMBS, CMBS, ABS)

Our Take and Next Steps for Clients

We believe the Fed will act in a way that promotes the smoothest transition possible, providing updated guidance and timelines as needed. Further, we have seen a significant number of new contracts and instruments already shift to referencing SOFR instead of LIBOR, which should lessen the disruption at the deadline.

However, prospectuses of LIBOR-linked securities issued prior to the last few years typically do not contemplate a permanent cessation of LIBOR. Often, these documents only consider the temporary unavailability of LIBOR, where if unavailable, the last LIBOR rate would be used as the "fallback" setting. In this event, the last available LIBOR rate could effectively become a fixed interest rate, fundamentally changing the floating nature of the original coupon.

Many investors have very little or no exposure to LIBOR as a reference rate within their portfolios and therefore will notice little impact. Nevertheless, for those that do hold LIBOR-linked securities with maturities beyond the late 2021 sunset date or encounter securities linked to LIBOR over the next 14 months, now is the time to understand the upcoming changes and their potential implications.

The LIBOR Transition Team at BB&T now Truist has been working on behalf of advisors and clients to create a smooth transition away from LIBOR.

Please reach out with any questions you may have. Your advisor can help guide you.

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