05 February 2019

Dear Sir/Madam,

**Standard Chartered's Response to the Alternative Reference Rate Committee's (ARRC) consultation *regarding more robust LIBOR fall-back contract language for new originations of LIBOR bilateral business loans***

Standard Chartered welcomes the publication of the ARRC's proposed approach to more robust fall-back language for new originations of LIBOR bilateral business lines. We support the work of the ARRC in catalysing the market's voluntary transition from USD LIBOR to SOFR and strengthening the robustness of LIBOR contracts.

Standard Chartered has the following observations in relation to the proposals:

**General approach**

- Q1: The amendment approach is similar to what we are rolling out gradually across our standard bilateral lending documentation. Given the uncertainty around which rates will be selected in the future then it would be difficult for market participants to agree to a rate when there is uncertainty around the methodology for the calculation of these rates. The hard-wired approach may be more appropriate once there is clarity on this.

- Q2: Concerns relate to divergence between cash and hedging products – see below Q3.

**Triggers**

- Q3(a): Triggers 3 and 5 align with the LMA and trigger events we are incorporating into our bilateral lending documentation. We query if trigger 4 is needed in addition to a market disruption trigger – if this is not just a temporary issue then the event would likely be captured under the other triggers, but taking action after just five business days without certainty of the circumstances could be considered reactive. We note that the inclusion of these could lead to basis risk where there is a hedge in place that does not contain the same pre-cessation triggers.

- Q4(a): Yes, it could be operationally beneficial to manage the transition on a staggered basis.

- Q4(b): Yes, in both.

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**The Replacement Benchmark**

Q6-11: We note that this is dependent on the final outcome of the ISDA consultation. We supported the consensus view that has emerged, which is “compounded setting in arrears rate” and “historical mean/median approach”.

**Spread Adjustments**

Q12: Yes.

Q13: This needs to link to pre-cessation triggers.

**The role of the lender**

Q15: Our preference would be to retain Lender determination, on a reasonable basis. Permutations do create operational/infrastructure difficulty.

Q16: Dependent on the market cycle, there will be those that benefit and those that lose out. As a market driven reform, the latter option should enable Lenders to take the bulk of decisions, but does give the client the chance to raise issues.

Q18: Flexibility is preferred.

**Operational considerations**

Q19: Yes. Unless and until there is certainty, a full conversion is not achievable. In addition, there is significant volume of transactions impacted that require repapering. Infrastructure will need to be adapted to cater for the new fallbacks.

Q20: We potentially see other challenges. This needs to be balanced against jurisdictional requirements and the market stance on trading clients fairly. There needs to be a balance between providing timely and relevant information to clients without inundating them with “placeholders” that do not provide them with clarity. In addition, we do not yet know how the fallbacks will operate – there could be counterparty disputes if the fallbacks do not operate as intended and clients complain.

**Hedged loans**

Q21: This is yet to be determined. There have been examples of behavior change given concerns around ability to match the fallbacks.

**General feedback**

Q25: There are concerns that regardless of facility type, there could be a divergence between the fallbacks for cash products and derivatives (hedges).

We would be happy to discuss any of the points raised in more detail.

Yours sincerely,

Ian Sayers

**Ian Sayers**
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