

The Alternative Reference Rates
Committee

Adam Chodkowski, Esq.
Head Capital Markets, Asset Management
Group Operations
Director, Legal & Compliance
Swiss Re Management (US) Corporation
1301 Avenue of the Americas
New York, NY 10019
USA
Phone +1 (212) 407-7348
Fax +1 (212) 317-5474
swissre.com

February 4, 2019

Feedback on ARRC Consultation Regarding More Robust Libor Fallback Contract Language for New Originations of LIBOR Bilateral Business Loans

Dear Secretariat

Swiss Re respectfully submits this feedback letter to the Alternative Reference Rates Committee in response to the questions raised in the above referenced consultation. Swiss Re is a 157-year old global reinsurance company that has helped rebuild American lives and communities from every major natural disaster since the 1906 San Francisco earthquake.

Question 1. *If the ARRC were to adopt one or more sets of bilateral business loan fallback language, which one or both of the recommended provisions (i.e., amendment approach and/or hardwired approach), in your view, is an appropriate policy? If you believe the amendment approach is more appropriate at present, what specific information (for instance, existence of term SOFR) would you need in order to get comfortable eventually adopting a hardwired approach? Why?*

We believe that the hardwired approach is the most appropriate.

Question 2. *Beyond your response to Question 1, are there product or transaction types, or methods of documenting transactions, for which either of the fallback approaches would be problematic? If so, please explain. What other approach would you suggest?*

No.

Question 3.

(a) Should fallback language for bilateral business loans include any of the pre-cessation triggers (triggers 3, 4 or 5)? If so, which ones?

Trigger 3.

(b) Please indicate whether any concerns you have about these pre-cessation triggers relate to differences between these triggers and those for standard derivatives or relate specifically to the pre-cessation triggers themselves.

Both. Ideally, we would like to see consistency between the cash and the derivatives markets. We are also concerned about some of the pre-cessation triggers themselves, as triggers 4 & 5 appear to be highly subjective.

(c) If pre-cessation triggers are not included, what options would be available to market participants to manage the potential risks involved in continuing to reference a Benchmark whose regulator has publicly determined that it is not representative of the underlying market or a Benchmark permanently or indefinitely based on a number of submissions that the Benchmark's administrator acknowledges to be insufficient to allow for production in a standard manner?

Any such options are not readily transparent at this date.

Question 4.

(a) Is an "opt-in" trigger appropriate to include? Why or why not?

Yes.

(b) Do you believe an "opt-in" trigger should be included in both the hardwired and amendment proposals or only in one (please specify which and explain).

Yes; however we prefer the hardwired approach.

Question 5. *Are there any other trigger events that you believe should be included for consideration? If yes, please explain.*

No.

Question 6. *If the ARRC has recommended a forward-looking term rate, should that rate be the primary fallback for bilateral business loans referencing LIBOR even though derivatives are expected to reference overnight versions of SOFR? Please explain.*

Yes, as a forward-looking term rate better aligns to current lending practices.

Question 7. *Should the Lender be able to eliminate certain interest period options if there are no equivalent SOFR terms available? If so, consider the following options: (i) the Lender may remove all interest periods for which there is not a published term rate or (ii) the Lender may remove only the interest periods for which there is not a published term rate and a term rate cannot be interpolated. Which of the options do you support? Why?*

Yes. We believe that the Lender may remove all interest periods for which there is not a published term rate, as this provides greater certainty.

Question 8. *Should “Compounded SOFR” be included as the second step in the waterfall? Why or why not? Would this preference be influenced by whether ISDA implements fallbacks referencing compounded SOFR or overnight SOFR?*

Yes. While we would prefer consistency between the cash and derivatives markets, this preference would not be influenced by the choice ISDA implements.

Question 9. *If you believe that Compounded SOFR should be included, which compounding period is preferable (“in arrears” or “in advance”)? Would this preference be influenced by whether ISDA implements fallbacks referencing compounded SOFR “in arrears” or “in advance”?*

In arrears, as this better aligns to current lending practices. While we would prefer consistency between the cash and derivatives markets, this preference would not be influenced by the choice ISDA implements.

Question 10. *As noted, this consultation does not include Overnight SOFR as a final step in the waterfall. Do you believe that Overnight SOFR is an appropriate fallback reference rate for bilateral business loans or should the final step in the replacement rate waterfall be Compounded SOFR (after which the hardwired approach defaults to a streamlined amendment process)?*

We believe that Overnight SOFR is not an appropriate fallback reference rate

Question 11. *Is there any other replacement rate that should be added to the hardwired approach waterfall before parties move to the streamlined amendment process? If so, what is the appropriate rate or rates and at which stage in the waterfall should they be applied? Please explain.*

No.

Question 12. *Do you believe that the ARRC should consider recommending a spread adjustment that could apply to cash products, including bilateral business loans?*

Yes.

Question 13. *Is a spread adjustment applicable to fallbacks for derivatives under the ISDA definitions appropriate as the second priority in the hardwired approach spread waterfall even if bilateral business loans may fall back at a different time or to a different rate from derivatives? Please explain.*

Yes.

Question 14. *Is there any other spread adjustment that should be added to the hardwired approach spread waterfall before parties move to the streamlined amendment process? If so, what is the appropriate spread and at which stage in the waterfall should it be applied?*

No.

Question 15. *For respondents that act as Lenders in the bilateral business loan market, would your institution be willing to (i) work with the Borrower to identify a new reference rate or spread adjustment, (ii) determine whether triggers have occurred, (iii) select screen rates where reference rates are to be found, (iv) interpolate LIBOR or term SOFR if there is a missing middle maturity, and (v) execute one-time or periodic technical or operational amendments to appropriately administer the replacement benchmark? Please respond to each and explain.*

No.

Question 16. *In any of these situations, should the Lender have the right to take the relevant action, for example to designate loan terms unilaterally within the framework of either Appendix I or Appendix II, simply by notice to the Borrower? Alternatively, should the lender have the right to take such action, subject only to the Borrower's right to withhold consent? Please explain which approach, or what alternative approach, you think would be better.*

Yes, we believe that the Lender should have the right to take the relevant action simply by notice to the Borrower.

Question 17. *Is it necessary that any replacement rate and/or applicable spread adjustment be published on a screen by a third party? Why or why not?*

Yes, to ensure transparency and certainty.

Question 18. *Given that market practices and conventions may change over time, should the Lender's limited ability to make conforming changes be available only at the point of transition or on a periodic, ongoing basis? Why or why not?*

The Lender's ability to make conforming changes should be available on a periodic, ongoing basis.

Question 19. *Are there operational concerns about having the ability to convert many loans over a very short period of time? Please explain.*

Yes, we believe resource constraints across the industry could impact the ability to convert many loans over a short period of time.

Question 20. *Do you see other operational challenges that fallback language should acknowledge or of which the ARRC should be aware? For example, both approaches to fallback language involve various notices from the Lender¹ – do these requirements and the resulting communications between parties impose undue operational burdens? Please explain.*

Yes, in general, we believe there will be back-office types of operational challenges to accomplish a transition in a short period of time.

Question 21. *If bilateral business loans fall back to a different rate from derivatives, how do market participants expect to handle the interplay of loans and their hedges? Would market participants expect that current swaps would be terminated and a new swaps entered into once the loan has transitioned?*

The handling of this interplay is not readily transparent at this date. We would note that terminating current swaps to enter new swaps could trigger termination payments and therefore cashflow issues for some market participants.

Question 22. *Would market participants that execute interest rate hedges prefer to fall back to the same rate and spread that becomes operative under the ISDA Definitions even if a term SOFR is available? If so, please provide comments on the proposal for hedged loans set forth in Appendix VI, including a discussion of any operational concerns. Please provide comments on any other approaches you think could be useful in addressing fallbacks in loans and related hedges.*

No comment.

Question 23. *When a loan is only partially hedged, either by a swap that is not coterminous with the loan's maturity or a swap the notional amount of which is less than the loan amount (or the portion of the loan accruing interest based on LIBOR), should a trigger event result in the entire loan balance converting to the fallback benchmark? Would it be operationally practical to align only the hedged portion's terms with the terms of the swap? What other concerns would market participants anticipate in operationalizing dynamic tranching of a partially hedged loan?*

No Comment.

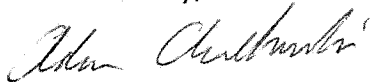
***Question 24.** Are there any provisions in the fallback language proposals that would significantly impede bilateral business loan originations? If so, please provide a specific and detailed explanation.*

No; however we would note that if the transition results in increased costs for borrowers, borrowers are likely to resist any changes.

***Question 25.** Please provide any additional feedback on any aspect of the proposals.*

No additional considerations at this time.

Yours sincerely,



Swiss Re Management (US) Corporation