Syndicated Business Loan Consultation Questionaire

We submit this questionnaire on an anonymous basis for the ARRC's use only on LIBOR replacement.

Question 1:

If the ARRC were to adopt one or more sets of 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?

Amendment approach.

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 hard-wired approach? Why?

Given the nascent status of the SOFR rate market and the lack of development of a term SOFR rate and corresponding spread adjustment we believe it premature to commit ourselves to a future course of action that the Hardwired approach entails.

Question 2:

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

We believe that the appropriate regulatory authorities should deem LIBOR no longer "fit for purpose" at some future date, which would telegraph to the financial markets that the benchmark will be discontinued. As related to this, we would expect a public statement by the administrator that it will cease to provide the Benchmark which on its own would also be a trigger event.

(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.

We can foresee challenges to the market if different asset classes begin converting to LIBOR at different times and LIBOR continues to be quoted.

(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?

Migration to SOFR from LIBOR needs to be conducted in a consistent manner to avoid the confusion of a "dead" LIBOR continuing to be quoted. It should be deemed no longer "fit for purpose" at such time it is no longer so.

Question 3:

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

An opt-in trigger is appropriate to include.

(b) If you do believe an "opt-in" trigger should be included, do you prefer the hardwired proposal or the amendment proposal approach?

Amendment approach.

Question 4:

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

No

Question 5:

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

We are uncertain at this time whether we will favor a forward-looking term rate vs. a compound SOFR rate calculated in arrears.

Question 6:

Should the administrative agent (by itself or with some other party) be able to eliminate certain interest period options if there are no equivalent SOFR terms available? (Such as 6-month SOFR if only 1- and 3-month SOFR is available.)

Given the change from LIBOR, we think the market should adopt a single standard interest period option. Perhaps 30-day SOFR uniformly applied to bank loans would offer the most liquidity. We think that the loan market should seize upon this opportunity to match underlying loans with CLO liabilities. There is currently a mismatch with CLO liabilities locked in on a 90-day rate while underlying loan assets primarily over 30 days.

Question 7:

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?

A "Compounded SOFR" may be a superior option depending upon if or when a term SOFR market develops.

Question 8:

If you believe that Compounded SOFR should be included, would a Compounded SOFR in advance or *Compounded SOFR in arrears be preferable for syndicated loans? Please explain.*

Compound SOFR in arrears is more desirable. It will be the actual rate realized during the stated period. It would minimize the risk of asset liability mismatch for CLO managers.

Question 9:

Is Overnight SOFR an appropriate fallback reference rate for syndicated 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)? Would this preference be influenced by whether ISDA implements fallbacks referencing compounded SOFR or overnight SOFR? Please explain.

Overnight SOFR is a less desirable fallback reference rate for the floating rate loan market. Floating rate loans historically have used 90-day LIBOR. If we have to fall back to overnight SOFR the spread adjustment required to equalize will become a bigger component of our loans overall yield. Our concern is that issuers/underwriters will push investors in floating rate loans to accept below market spread adjustments. The larger the spread adjustment is the greater the potential for underwriters to push for a smaller spread adjustment thereby reducing overall yield in our asset class. We are already adjusting for the credit component the new benchmark should strive to minimize additional adjustments.

Question 10:

Is it acceptable to fix one observation of Overnight SOFR as the reference rate for a loan lasting three months (or longer)? Would lenders refuse to offer longer-duration loans if they were priced over one Overnight SOFR observation? Please explain.

No; an overnight SOFR fixed for 30-90 days would potentially lead to asset/liability mismatches for CLO's and would likely add to volatility in the loan market.

Question 11:

Is there any another 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?

No; we prefer the amendment approach over the hardwired approach given the undeveloped state of the SOFR term market, so we do not see the benefit of adding any further steps to the hardwired approach waterfall before parties move to the streamlined amendment process.

Question 12:

Do you believe that the ARRC should consider recommending a spread adjustment that could apply to cash products, including syndicated business loans?

The ARRC/FED and other involved regulatory agencies should publish research on their views of what the spread adjustment should be based on their empirical research. This should be released to the investment community and a comment period should be provided.

Question 13:

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

No, the ARRC spread adjustment would be preferable to ISDA as it would be endorsed by the Relevant Governmental Body and should reflect the broadest range of market input. Investment requirements and expectations in derivatives markets could vary materially from the expectations in cash markets. ISDA should participate in this process but not be relied upon to set the spread adjustment.

Question 14:

Is there any another 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; we prefer the amendment approach over the hardwired approach given the undeveloped state of the SOFR term market, so we do not see the benefit of adding any further steps to the hardwired approach waterfall before parties move to the streamlined amendment process.

Question 15:

(a) Under the amendment approach proposal, if parties are selecting a replacement rate through the amendment process, should the objection of the Required Lenders be by class

(if applicable) of the section titled "Effect of Benchmark Discontinuance Event" in Appendix I)? Why or why not?

Yes, amendment process should be processed by lender class. There are different motivations between the buyers of different lender tranches (e.g. pro rata loans are largely held by the banks that are loan arrangers for issuers creating a potential conflict).

(b) *Under the amendment approach proposal, if parties choose to select a replacement rate through the "opt-in" amendment process, should the affirmative consent of the Required Lenders be by class (if applicable) (see clause (b) of the section titled "Effect of Benchmark Discontinuance Event" in Appendix I)? Is affirmative consent appropriate or should negative consent be considered instead? Please explain.*

Yes, affirmative consent should be required. Too much uncertainty currently; it wouldn't be prudent for investors to accept implied consent.

<u>Question 16:</u>

(a) *Under the hardwired approach proposal, if parties must fallback to selecting a replacement rate through the amendment process because none of the options in the replacement rate waterfall are available, is the objection of the Required Lenders by a class appropriate (if applicable) (see clause (d) of the section titled "Effect of Benchmark Discontinuance Event" in Appendix II)? Why or why not?*

Yes, please see response to question 15-a

(b) *The hardwired approach proposal provides two bracketed options for a successful declaration of the "opt-in" amendment process - Required Lenders (typically a majority) vs. supermajority (2/3) of lenders (see clause (B) of the definition of "Benchmark Transition Determination" in Appendix II). What should be the standard affirmative lender voting threshold for consenting to the "opt-in"? Please explain.*

Standard should be a supermajority. If replacement protocol is well thought out and well implemented to be fair to all parties, then achieving a 2/3 consent should be easily achievable.

<u>Question 17:</u>

For respondents that act as administrative agents in the syndicated 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 term SOFR if there is a missing middle maturity and, (v) execute one-time or periodic technical or operational amendments to allow the administrative agent to appropriately administer the replacement benchmark? Please respond to each and explain.

N/A

Question 18:

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

Yes, LIBOR is already published on electronic screens, so the new rate should have the same degree of transparency.

Question 19:

Given that market practices and conventions may change over time, should the administrative agent'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?

Changes should be approved at any given point in time by requisite lenders. View of what is a "conforming" change could vary by agent and lead to abuse by issuers/arrangers on investors.

Question 20:
How important is it for the fallback rate to be available prior to making a borrowing/advancing funds? For instance, if the rate was a compounded three-month rate calculated at the ***end*** *of the interest period, would that be problematic? Please explain.*

Many loan managers in their loan operations process already use an estimated rate prior to a loan settlement and then "true up" subsequent, so going to a similar process for compounded SOFR should be easily processed by issuers and investors.

Question 21:

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

With a change of this magnitude, the potential for unintended consequences is substantial, but we remain confident in our own organization's capabilities to respond to any potential challenges, and we remain confident in the floating rate loan market to respond appropriately.

Question 22:

Do you see other operational challenges that fallback language should acknowledge or of which the ARRC should be aware? Please explain.

Are the agent banks committed to invest in technology and human resources to effect a smooth transition to SOFR and operate more efferently in the future? There should be a well telegraphed phase-in period before LIBOR fully falls away.

<u>Question 23:</u>

What modifications to the syndicated loan consultative language may be helpful to market participants as they consider more robust fallback language in a bilateral or single-bank business loan context, if any? Please explain. Specifically, what modifications to the language may be appropriate in instances in which the bilateral loan is fully or partially hedged? Please explain.

N/A; this seems more applicable to direct lending operations, which we don't conduct.

<u>Question 24:</u>

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

Failure to maintain yield under a SOFR regime from a LIBOR regime could lead to negative headlines and cause investors in loan mutual funds and CLO's to lose confidence in the asset class.

<u>Question 25:</u>

Please provide any additional feedback on any aspect of the proposals.

We think it important for the loan market participants and CLO's to make conforming changes to our business as needed to minimize the potential for future systemic risk and reduce asset/liability mismatches in the future.