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Borrowers: prepare for transition to alternative reference rates in your loan documents

The transition from referring to EURIBOR and LIBOR benchmark interest rates (IBORs) in loan documentation to using risk-free rates (RFRs) has been an important topic of discussion over the last few years. Most borrowers are waiting for clear market guidance before they start the transition process, and they might underestimate the extent and potential impact of the amendments they may have to make. Although forward-looking RFRs may be developed for certain currencies and reformed EURIBOR may remain available, this should not prevent borrowers from taking action. Given the important differences between IBORs and RFRs, the switch requires more than simply referencing an RFR instead of an IBOR. To prepare for the expected discussions with their banks on the transition, borrowers need to assess their IBOR exposure. They should also familiarise themselves with the differences between IBORs and RFRs and what those differences imply. Recently published LMA exposure drafts may assist in this process.