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## LIBOR'S LAST LEG: LEGISLATION AND SYNTHETIC LIBOR EASE THE TRANSITION TO SOFR

*On July 3, 2023, LIBOR, the standard used for decades to set variable interest rates for trillions of dollars in financial instruments, will disappear. The authors describe actions taken by the U.S. government and regulators to mitigate the potential effects of the transition to a new benchmark and some of the remaining sources of uncertainty concerning the end of LIBOR.*

By Amy McDaniel Williams, Michael Kruse, and Tina Locatelli \*

Since the 1980s, the London Interbank Offered Rate (“LIBOR”) has served as the benchmark for variable interest rates in contracts of all kinds — including commercial loans, swaps and derivatives, CDOs, mortgage-backed securities, and consumer loans — earning it the title of “the world’s most important number.”<sup>1</sup>

LIBOR was developed to provide a measure of the rates for unsecured, interbank loans. The published values are based on submissions from panels of large banks concerning the rates that they believe they would have to pay for unsecured loans over various periods.

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<sup>1</sup> David Enrich, THE WALL STREET JOURNAL, “Libor: A Eulogy for the World’s Most Important Number” (July 27, 2017).

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Over the past several years, however, regulators and financial institutions have sought to transition away from LIBOR because of concerns as to its resiliency, its reliance on expert judgments instead of actual transactions (which undermines its objectivity and ability to represent the market accurately), and high-profile scandals exposing its vulnerability to manipulation. In 2021, the UK Financial Conduct Authority (“FCA”), which regulates the publication of LIBOR by ICE Benchmark Administration (“IBA”), announced that publication of overnight and one-, three-, six-, and 12-month USD LIBOR would cease on June 30, 2023.

This process of transitioning trillions of dollars’ worth of contracts and instruments away from LIBOR has required regulatory bodies the world over to develop robust and practical alternative benchmark rates to

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