Wall Street Eyes Fix for $345 Billion Libor Dilemma in Debt Swap.

- **Beleaguered benchmark set to be discontinued by end of 2021**
- **FFCB exchanging bonds that can't switch to new reference rate**

A U.S. government-sponsored agricultural lender is seeking to swap $1.9 billion of Libor-linked bonds in a deal backers say could serve as a template for future transactions ahead of the discredited reference rate's planned phase-out.

The Federal Farm Credit Banks Funding Corp. is looking to exchange the securities due between 2022 and 2032 that lack language to account for the end of Libor for notes that will shift to the Secured Overnight Financing Rate when the beleaguered benchmark expires at the end of next year. There's at least $345 billion of dollar-denominated floating-rate notes set to mature after 2021 that don't have the necessary contractual terms to transition from Libor, according to TD Securities (USA), which is managing the deal.

The swap comes as proposed legislation designed to address the issue makes little headway with New York state lawmakers, raising concerns on Wall Street. The deal is being viewed as something of a trial balloon as bankers, investors and regulators work to avert financial chaos when Libor is phased out. Without a solution, countless floating-rate bonds would effectively convert to fixed-rate notes based on Libor's final print, potentially upending the market and leading to a flood of litigation, according to industry watchers.

The swap "could be a very significant moment for the transition," said Andrew Gray, co-chair of the outreach and communications working group for the Alternative Reference Rates Committee, the Federal Reserve-backed group guiding the U.S. Libor shift. It may cause "a domino effect as other bond issuers seek to incorporate ARRC fallback language through similar bond exchanges."

While issuers could theoretically amend outstanding bonds to address the fallback language issue, floating-rate notes typically require consent from each holder to change their benchmark interest rate, making such efforts impractical.

The FFCB exchange offer began Sept. 24 and is set to expire at 5 p.m. New York time on Oct. 22.

Bondholders often choose to participate in debt swaps rather than risk getting stuck with notes with reduced liquidity, which can weigh on their price.

Still, without unanimous participation the swap will only be a partial fix, according to Anne Beaumont, counsel at Friedman Kaplan Seiler & Adelman LLP.

"They'll still have a complex problem for the bonds that aren't exchanged," she said. "It's not a total solution. You could even say it makes it more complicated as you are likely to have two sets of bonds."

The FFCB raises funds by selling debt to banks, insurers and state and local municipalities. It then provides loans, leases and other services to rural communities and U.S. agriculture businesses, according to its website.

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By William Shaw

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