



Distressed Debt & Claims Trading ADVISORY ■

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LSTA Trading Documents Revised to Simplify Cost of Carry Calculation

The Loan Syndications and Trading Association (LSTA) republished its entire library of syndicated loan trading documents and dated them to govern trades entered into on or after December 1, 2021. Only three of the documents republished contained revised terms: The Standard Terms and Conditions (STCs) for (1) the Primary Allocation Confirmation; (2) the Par Confirmation; and (3) the Distressed Confirmation. All other LSTA loan trading documents remain unchanged from the prior versions, other than the date of publication.

The changes made effective December 1 were designed to simplify the delayed compensation calculation set forth in Section 6 of each of the STCs by revising the definition of “cost of carry rate” in Section 6(c) to be based on the Secured Overnight Financing Rate (SOFR) (a single reference rate) rather than the London Inter-Bank Offered Rate (LIBOR) or different alternative benchmarks, including those referenced in the credit agreement of a facility being traded. The revised STCs define SOFR as the rate equal to the secured overnight financing rate as administered by the Federal Reserve Bank of New York (or a successor administrator of the secured overnight financing rate).

As market participants are aware, the determination of when compensation for delayed settlement of a trade is owed by a buyer or seller and the method for calculating such compensation is set forth in a complex set of rules and definitions in Section 6 of the STCs. In Section 6, the calculation of the cost of carry component of such compensation for delayed settlement has previously relied on the use of a cost of carry rate definition based on LIBOR or alternative benchmarks, including those referenced in the credit agreement of a facility being traded.

Given the syndicated loan market’s transition away from use of LIBOR due to the ICE Benchmark Administration announcements of dates for its intended permanent cessation of the publication of various LIBOR,¹ the LSTA indicated

¹ On March 5, 2021, ICE Benchmark Administration Limited, the administrator for LIBOR, [announced](#) that it will permanently cease to publish LIBOR beginning on the following dates:

- January 1, 2022 for:
 - All seven EUR LIBOR settings
 - All seven CHF LIBOR settings
 - All seven JPY LIBOR settings
 - All seven GBP LIBOR settings
 - One-week and two-month USD LIBOR settings
- July 1, 2023 for the overnight, one-month, three-month, six-month, and 12-month USD LIBOR settings.

that its prior method of calculating cost of carry would become “cumbersome and suboptimal.” Therefore, as of December 1, the LSTA has significantly simplified the calculation of cost of carry in Section 6 of the STCs by revising the definition of “cost of carry rate” to utilize just one rate (based on SOFR) and deleting references LIBOR and any alternative benchmarks, including those referenced in the credit agreement of a facility being traded.

Below is the revised definition of “cost of carry rate” in Section 6 of each of the STCs, which uses a reference to a single benchmarked rate with a fixed spread adjustment.

“Cost of Carry Rate” means, for a Delay Period: (a) the sum of all the individual daily simple SOFRs in the period from (and including) the date two (2) Business Days before the Commencement Date and to (but excluding) the date that is two (2) Business Days before the Delayed Settlement Date (b) divided by the total number of days in such period (c) plus the spread adjustment equal to 11.448 basis points.

The revised STCs will apply, as applicable, to all trades entered into on or after December 1, 2021. For trades entered into before December 1, 2021, the relevant prior versions of the LSTA STCs will be used to determine the cost of carry rate, when applicable.

Should you have any questions or inquires please do not hesitate to reach out to any member of the Alston & Bird Distressed Debt & Trading Group or any other professional you communicate with at Alston Bird.

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