

On December 9, 2019, SFA submitted a [response](#) to the proposed [amendments](#) to the Swap Margin Rule published by federal regulatory agencies on November 7, 2019.¹

Our comments focus exclusively on the first part of the proposal, which would **allow legacy swaps to retain their legacy status if they are amended to facilitate the replacement of LIBOR or another discontinued rate**. Specifically, this proposal would amend the margin requirements such that any amendment made to a legacy swap for the purposes of replacing an interbank offered rate (IBOR) – or other discontinued rate – would not cause the swap to lose its legacy status and therefore become subject to margin requirements.

SFA’s engagement on LIBOR has made it abundantly clear that potential basis risk is a key concern for our market, particularly changes that would force unexpected changes on deal structures and mechanics. One specific area of concern is alignment between derivatives and the debt they hedge. If, in anticipation of LIBOR’s cessation, a LIBOR-based bond has incorporated robust trigger and fallback language, but an associated derivative has not (*e.g.*, due to fear of losing its legacy status under the Rule), there is basis risk between the bond and the hedge. SFA is therefore in agreement with the agencies that in order to enable covered swap entities and their counterparties to “avoid the risk of future financial instability, it is appropriate to permit covered swap entities to amend the reference rates in a legacy swap contract and to adopt necessary follow-on amendments without converting the legacy swap into a swap subject to the ... Rule.”²

SFA appreciates the agencies’ effort to ensure that LIBOR transition take place with as little disruption as possible. This proposal, to offer relief for legacy swaps from margin requirements in the event of reference rate changes, is a welcome development for the financial markets.

More information about SFA’s engagement on LIBOR transition for the structured finance market can be found [here](#).

¹ 84 Fed. Reg. 59970 (Nov. 7, 2019) (the “Proposal”)

² Proposal at 59974.