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Documentation Alert

LMA publishes exposure draft term SOFR documentation for developing markets

The LMA is pleased to have published an exposure draft single currency term and revolving facilities agreement incorporating term SOFR for use in developing markets jurisdictions ("**Term SOFR Exposure Draft**"), alongside a commentary.

Term SOFR is forward-looking in nature and so is similar in appearance to interbank rates such as ICE LIBOR. However, there are differences between term SOFR and ICE LIBOR which may require factoring into its use and documentation. The Term SOFR Exposure Draft and the accompanying commentary are intended to facilitate awareness of the issues involved in structuring syndicated loans for developing markets jurisdictions which reference CME term SOFR and the development of an approach to these issues by market participants. It should be noted that the Term SOFR Exposure Draft does not yet constitute a recommended form of the LMA given the absence of established market practice. It is for individual market participants to form their own view of the extent to which it is suitable for use as the basis for preparing loan documentation for transactions.

The Term SOFR Exposure Draft is based on the LMA recommended form of single currency unsecured term

[Access document](#)



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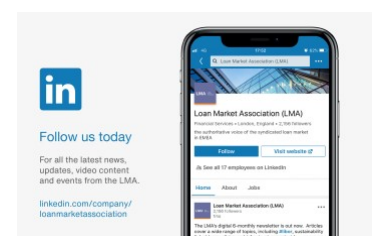
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and revolving facilities agreement for multiple borrowers and guarantors in developing markets jurisdictions. The focus on developing markets reflects the fact that developing markets have been recognised across different currency working groups as a use case for term rates derived from RFRs. The Term SOFR Exposure Draft has been developed in conjunction with preliminary input and views provided by a working party consisting of representatives from a wide range of market participants and advisers (including the Association of Corporate Treasurers).

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In relation to fallback provisions, although there is currently a lack of established market practice and consensus as to the most appropriate fallbacks to term SOFR, illustrative drafting has been included to address the short-term unavailability of term SOFR. However, the Term SOFR Exposure Draft is left blank in respect of fallbacks for a permanent cessation of term SOFR. Appropriate fallbacks in this event will need to be considered by the parties. The commentary contains a discussion on various possibilities which members may want to consider.

Publication of the Term SOFR Exposure Draft by the LMA is not intended to, and should not be construed as, any form of statement or comment by the LMA as to the suitability from a regulatory perspective of the use of term SOFR in any particular context by any particular market participant. It should also be noted that the Term SOFR Exposure Draft is a single currency facility agreement. Particular consideration from a regulatory perspective may be needed if contemplating the use of term SOFR in a multicurrency context given the differences in use cases between term SOFR and other term rates derived from RFRs.

Note that use of term SOFR is not addressed in the LMA compounded RFR facilities agreements. This position will be kept under review as market practice develops. Market participants should note that those LMA compounded RFR facilities agreements which contain a framework for use of a term rate as the primary reference rate for a currency assume that the relevant term rate will be an interbank term rate (such as EURIBOR) which incorporates a credit premium and term liquidity premium. If those documents are adapted to envisage the use of term SOFR as the primary reference rate for dollars, market participants should note that changes to the structure of those documents may be necessary and that suitable fallbacks to term SOFR should be determined and specified.

The Term SOFR Exposure Draft and commentary have been made available on the LMA website under both the [Developing Markets](#) and [LIBOR Transition](#) categories of the [Documentation Index](#).

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