

CASE STUDY

Vistra transitions seven Yen LIBOR transactions to new risk-free rate

From 31 December 2022, any legacy transactions that reference Japanese Yen LIBOR will have to move to an alternative rate, as synthetic Japanese Yen LIBOR will be discontinued. Many investors have been concerned at the prospect of being left with fixed-rate assets which, in a period of high inflation, would have a negative impact on their returns.

In 2021, Vistra Capital Markets stepped in to manage the consent solicitation process for several Lehman Brothers-arranged securitisations referencing Yen LIBOR. Despite tight deadlines, Vistra has, to date, successfully moved seven transactions to a risk-free rate – allaying investor fears and doing so in the most cost-effective manner.

The challenge

Rate transitions are always complex and time-consuming, and success is never guaranteed. But the Lehman Brothers' transactions were particularly difficult, with no arranger to co-ordinate or lead the process.

Not only were all the transactions structured before the 2008 financial crisis, but the documentation didn't contain any fallback language. What's more, Lehman Brothers no longer exists to help, and Vistra was the only stakeholder willing to tackle such a complex and expensive task.

The process also required the engagement of a financial advisor, a tabulation agent, English and Japanese counsel, and collaboration with other transaction parties including ratings agencies. To complicate matters further, the Japanese markets offer three competing alternatives to Japanese Yen LIBOR.

Vistra's solution

Vistra's Capital Markets teams in London and the Cayman Islands took the initiative as a trusted third party – first fielding a host of enquiries from investors about what was happening, what needed to be done, and how that would affect their investments. The teams then led the transition and consent process, co-ordinating engagement of counsel and other agents, and liaising with all transaction parties.

This included working closely with financial advisors on a deep analysis of the alternative rates before deciding on the Tokyo Term Risk Free Rate (TORF). It also involved working with external counsel to structure a process to manage all consent solicitations concurrently – this was done to prevent the transaction ratings being downgraded while delivering significant cost savings to the investors.

All consent solicitations were launched well before the regulatory deadlines, with seven Japanese Yen LIBOR transactions now approved and successfully transitioned.



Benefits

- The transition prevented adverse commercial implications for investors given the demise of LIBOR.
- The market participants and the deal structures are now compliant with regulators' desire to use alternative rates.
- Investors now have bonds referenced to new floating rates, which may offer better returns during a time of high inflation and rising interest rates.
- The Japanese Yen LIBOR transactions would likely have been downgraded had Vistra not taken the initiative and remediated them.
- As the deals were handled concurrently, the investors also benefited from far lower costs.

7

Japanese Yen LIBOR transactions
successfully transitioned

3

continents – the transaction was facilitated
across 3 continents from the Far East to the West

1st

of their kind – Vistra is among the first
service providers to take ownership and lead
the rate transitions involving global markets

*“Even a single deal transition
can be highly complex and
time-consuming. Vistra
Capital Markets took the
initiative and successfully
transitioned seven transactions
at the same time.”*

Navita Yadav
Head of Capital Markets
Vistra

Working together to seize opportunity

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