

STATE OF NEW YORK

297--B

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IN SENATE

(Prefiled)

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Introduced by Sen. THOMAS -- read twice and ordered printed, and when printed to be committed to the Committee on Judiciary -- committee discharged, bill amended, ordered reprinted as amended and recommitted to said committee -- reported favorably from said committee, ordered to first report, amended on first report, ordered to a second report and ordered reprinted, retaining its place in the order of second report

AN ACT to amend the general obligations law, in relation to the discontinuance of the London interbank offered rate

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

1 Section 1. The general obligations law is amended by adding a new
2 article 18-C to read as follows:

ARTICLE 18-C

LIBOR DISCONTINUANCE

Section 18-400. Definitions.

6 18-401. Effect of LIBOR discontinuance on agreements.

7 18-402. Continuity of contract and safe harbor.

8 18-403. Severability.

9 § 18-400. Definitions. As used in this article the following terms
10 shall have the following meanings:

11 1. "LIBOR" shall mean, for purposes of the application of this article
12 to any particular contract, security or instrument, U.S. dollar LIBOR
13 (formerly known as the London interbank offered rate) as administered by
14 ICE Benchmark Administration Limited (or any predecessor or successor
15 thereof), or any tenor thereof, as applicable, that is used in making
16 any calculation or determination thereunder.

17 2. "LIBOR discontinuance event" shall mean the earliest to occur of
18 any of the following:

EXPLANATION--Matter in italics (underscored) is new; matter in brackets
[-] is old law to be omitted.

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1 a. a public statement or publication of information by or on behalf of
2 the administrator of LIBOR announcing that such administrator has ceased
3 or will cease to provide LIBOR, permanently or indefinitely, provided
4 that, at the time of the statement or publication, there is no successor
5 administrator that will continue to provide LIBOR;

6 b. a public statement or publication of information by the regulatory
7 supervisor for the administrator of LIBOR, the United States Federal
8 Reserve System, an insolvency official with jurisdiction over the admin-
9 istrator for LIBOR, a resolution authority with jurisdiction over the
10 administrator for LIBOR or a court or an entity with similar insolvency
11 or resolution authority over the administrator for LIBOR, which states
12 that the administrator of LIBOR has ceased or will cease to provide
13 LIBOR permanently or indefinitely, provided that, at the time of the
14 statement or publication, there is no successor administrator that will
15 continue to provide LIBOR; or

16 c. a public statement or publication of information by the regulatory
17 supervisor for the administrator of LIBOR announcing that LIBOR is no
18 longer representative. For purposes of this subdivision two, a public
19 statement or publication of information that affects one or more tenors
20 of LIBOR shall not constitute a LIBOR discontinuance event with respect
21 to any contract, security or instrument that (i) provides for only one
22 tenor of LIBOR, if such contract, security or instrument requires
23 interpolation and such tenor can be interpolated from LIBOR tenors that
24 are not so affected, or (ii) permits a party to choose from more than
25 one tenor of LIBOR and any of such tenors (A) is not so affected or (B)
26 if such contract, security or instrument requires interpolation, can be
27 interpolated from LIBOR tenors that are not so affected.

28 3. "LIBOR replacement date" shall mean:

29 a. in the case of a LIBOR discontinuance event described in paragraph
30 a or b of subdivision two of this section, the later of (i) the date of
31 the public statement or publication of information referenced therein;
32 and (ii) the date on which the administrator of LIBOR permanently or
33 indefinitely ceases to provide LIBOR; and

34 b. in the case of a LIBOR discontinuance event described in paragraph
35 c of subdivision two of this section, the date of the public statement
36 or publication of information referenced therein. For purposes of this
37 subdivision, a date that affects one or more tenors of LIBOR shall not
38 constitute a LIBOR replacement date with respect to any contract, secu-
39 rity or instrument that (i) provides for only one tenor of LIBOR, if
40 such contract, security or instrument requires interpolation and such
41 tenor can be interpolated from LIBOR tenors that are not so affected, or
42 (ii) permits a party to choose from more than one tenor of LIBOR and any
43 of such tenors (A) is not so affected or (B) if such contract, security
44 or instrument requires interpolation, can be interpolated from LIBOR
45 tenors that are not so affected.

46 4. "Fallback provisions" shall mean terms in a contract, security or
47 instrument that set forth a methodology or procedure for determining a
48 benchmark replacement, including any terms relating to the date on which
49 the benchmark replacement becomes effective, without regard to whether a
50 benchmark replacement can be determined in accordance with such method-
51 ology or procedure.

52 5. "Benchmark" shall mean an index of interest rates or dividend rates
53 that is used, in whole or in part, as the basis of or as a reference for
54 calculating or determining any valuation, payment or other measurement
55 under or in respect of a contract, security or instrument.

1 6. "Benchmark replacement" shall mean a benchmark, or an interest rate
2 or dividend rate (which may or may not be based in whole or in part on a
3 prior setting of LIBOR), to replace LIBOR or any interest rate or divi-
4 dend rate based on LIBOR, whether on a temporary, permanent or indefi-
5 nite basis, under or in respect of a contract, security or instrument.

6 7. "Recommended benchmark replacement" shall mean, with respect to any
7 particular type of contract, security or instrument, a benchmark
8 replacement based on SOFR, which shall include any recommended spread
9 adjustment and any benchmark replacement conforming changes, that shall
10 have been selected or recommended by a relevant recommending body with
11 respect to such type of contract, security or instrument.

12 8. "Recommended spread adjustment" shall mean a spread adjustment, or
13 method for calculating or determining such spread adjustment, (which may
14 be a positive or negative value or zero) that shall have been selected
15 or recommended by a relevant recommending body for a recommended bench-
16 mark replacement for a particular type of contract, security or instru-
17 ment and for a particular term to account for the effects of the transi-
18 tion or change from LIBOR to a recommended benchmark replacement.

19 9. "Benchmark replacement conforming changes" shall mean, with respect
20 to any type of contract, security or instrument, any technical, adminis-
21 trative or operational changes, alterations or modifications that are
22 associated with and reasonably necessary to the use, adoption, calcu-
23 lation or implementation of a recommended benchmark replacement and
24 that:

25 a. have been selected or recommended by a relevant recommending body;
26 and

27 b. if, in the reasonable judgment of the calculating person, the
28 benchmark replacement conforming changes selected or recommended pursu-
29 ant to paragraph a of this subdivision do not apply to such contract,
30 security or instrument or are insufficient to permit administration and
31 calculation of the recommended benchmark replacement, then benchmark
32 replacement conforming changes shall include such other changes, alter-
33 ations or modifications that, in the reasonable judgment of the calcu-
34 lating person:

35 (i) are necessary to permit administration and calculation of the
36 recommended benchmark replacement under or in respect of such contract,
37 security or instrument in a manner consistent with market practice for
38 substantially similar contracts, securities or instruments and, to the
39 extent practicable, the manner in which such contract, security or
40 instrument was administered immediately prior to the LIBOR replacement
41 date; and

42 (ii) would not result in a disposition of such contract, security or
43 instrument for U.S. federal income tax purposes.

44 10. "Determining person" shall mean, with respect to any contract,
45 security or instrument, in the following order of priority:

46 a. any person specified as a "determining person"; or

47 b. any person with the authority, right or obligation to:

48 (i) determine the benchmark replacement that will take effect on the
49 LIBOR replacement date,

50 (ii) calculate or determine a valuation, payment or other measurement
51 based on a benchmark, or

52 (iii) notify other persons of the occurrence of a LIBOR discontinuance
53 event, a LIBOR replacement date or a benchmark replacement.

54 11. "Relevant recommending body" shall mean the Federal Reserve Board,
55 the Federal Reserve Bank of New York, or the Alternative Reference Rates
56 Committee, or any successor to any of them.

1 12. "SOFR" shall mean, with respect to any day, the secured overnight
2 financing rate published for such day by the Federal Reserve Bank of New
3 York, as the administrator of the benchmark (or a successor administra-
4 tor), on the Federal Reserve Bank of New York's website.

5 13. "Calculating person" shall mean, with respect to any contract,
6 security or instrument, any person (which may be the determining person)
7 responsible for calculating or determining any valuation, payment or
8 other measurement based on a benchmark.

9 14. "Contract, security, or instrument" shall include, without limita-
10 tion, any contract, agreement, mortgage, deed of trust, lease, security
11 (whether representing debt or equity, and including any interest in a
12 corporation, a partnership or a limited liability company), instrument,
13 or other obligation.

14 § 18-401. Effect of LIBOR discontinuance on agreements. 1. On the
15 LIBOR replacement date, the recommended benchmark replacement shall, by
16 operation of law, be the benchmark replacement for any contract, securi-
17 ty or instrument that uses LIBOR as a benchmark and:

18 a. contains no fallback provisions; or
19 b. contains fallback provisions that result in a benchmark replace-
20 ment, other than a recommended benchmark replacement, that is based in
21 any way on any LIBOR value.

22 2. Following the occurrence of a LIBOR discontinuance event, any fall-
23 back provisions in a contract, security, or instrument that provide for
24 a benchmark replacement based on or otherwise involving a poll, survey
25 or inquiries for quotes or information concerning interbank lending
26 rates or any interest rate or dividend rate based on LIBOR shall be
27 disregarded as if not included in such contract, security or instrument
28 and shall be deemed null and void and without any force or effect.

29 3. This subdivision shall apply to any contract, security, or instru-
30 ment that uses LIBOR as a benchmark and contains fallback provisions
31 that permit or require the selection of a benchmark replacement that is:

32 a. based in any way on any LIBOR value; or
33 b. the substantive equivalent of paragraph a, b or c of subdivision
34 one of section 18-402 of this article.

35 A determining person shall have the authority under this article, but
36 shall not be required, to select on or after the occurrence of a LIBOR
37 discontinuance event the recommended benchmark replacement as the bench-
38 mark replacement. Such selection of the recommended benchmark replace-
39 ment shall be:

40 (i) irrevocable;
41 (ii) made by the earlier of either the LIBOR replacement date, or the
42 latest date for selecting a benchmark replacement according to such
43 contract, security, or instrument; and
44 (iii) used in any determinations of the benchmark under or with
45 respect to such contract, security or instrument occurring on and after
46 the LIBOR replacement date.

47 4. If a recommended benchmark replacement becomes the benchmark
48 replacement for any contract, security, or instrument pursuant to subdi-
49 vision one or subdivision three of this section, then all benchmark
50 replacement conforming changes that are applicable (in accordance with
51 the definition of benchmark replacement conforming changes) to such
52 recommended benchmark replacement shall become an integral part of such
53 contract, security, or instrument by operation of law.

54 5. The provisions of this article shall not alter or impair:
55 a. any written agreement by all requisite parties that, retrospective-
56 ly or prospectively, a contract, security, or instrument shall not be

1 subject to this article without necessarily referring specifically to
2 this article. For purposes of this subdivision, "requisite parties"
3 means all parties required to amend the terms and provisions of a
4 contract, security, or instrument that would otherwise be altered or
5 affected by this article;

6 b. any contract, security or instrument that contains fallback
7 provisions that would result in a benchmark replacement that is not
8 based on LIBOR, including, but not limited to, the prime rate or the
9 federal funds rate, except that such contract, security or instrument
10 shall be subject to subdivision two of this section;

11 c. any contract, security, or instrument subject to subdivision three
12 of this section as to which a determining person does not elect to use a
13 recommended benchmark replacement pursuant to subdivision three of this
14 section or as to which a determining person elects to use a recommended
15 benchmark replacement prior to the occurrence of a LIBOR discontinuance
16 event, except that such contract, security, or instrument shall be
17 subject to subdivision two of this section; or

18 d. the application to a recommended benchmark replacement of any cap,
19 floor, modifier, or spread adjustment to which LIBOR had been subject
20 pursuant to the terms of a contract, security, or instrument.

21 6. Notwithstanding the uniform commercial code or any other law of
22 this state, this title shall apply to all contracts, securities and
23 instruments, including contracts, with respect to commercial trans-
24 actions, and shall not be deemed to be displaced by any other law of
25 this state.

26 § 18-402. Continuity of contract and safe harbor. 1. The selection or
27 use of a recommended benchmark replacement as a benchmark replacement
28 under or in respect of a contract, security or instrument by operation
29 of section 18-401 of this article shall constitute:

30 a. a commercially reasonable replacement for and a commercially
31 substantial equivalent to LIBOR;

32 b. a reasonable, comparable or analogous term for LIBOR under or in
33 respect of such contract, security or instrument;

34 c. a replacement that is based on a methodology or information that is
35 similar or comparable to LIBOR; and

36 d. substantial performance by any person of any right or obligation
37 relating to or based on LIBOR under or in respect of a contract, securi-
38 ty or instrument.

39 2. None of: a. a LIBOR discontinuance event or a LIBOR replacement
40 date, b. the selection or use of a recommended benchmark replacement as
41 a benchmark replacement; or c. the determination, implementation or
42 performance of benchmark replacement conforming changes, in each case,
43 by operation of section 18-401 of this article, shall:

44 (i) be deemed to impair or affect the right of any person to receive a
45 payment, or affect the amount or timing of such payment, under any
46 contract, security, or instrument; or

47 (ii) have the effect of (A) discharging or excusing performance under
48 any contract, security or instrument for any reason, claim or defense,
49 including, but not limited to, any force majeure or other provision in
50 any contract, security or instrument; (B) giving any person the right to
51 unilaterally terminate or suspend performance under any contract, secu-
52 rity or instrument; (C) constituting a breach of a contract, security or
53 instrument; or (D) voiding or nullifying any contract, security or
54 instrument.

55 3. No person shall have any liability for damages to any person or be
56 subject to any claim or request for equitable relief arising out of or

1 related to the selection or use of a recommended benchmark replacement
2 or the determination, implementation or performance of benchmark
3 replacement conforming changes, in each case, by operation of section
4 18-401 of this article, and such selection or use of the recommended
5 benchmark replacement or such determination implementation or perform-
6 ance of benchmark replacement conforming changes shall not give rise to
7 any claim or cause of action by any person in law or in equity.

8 4. The selection or use of a recommended benchmark replacement or the
9 determination, implementation, or performance of benchmark replacement
10 conforming changes, by operation of section 18-401 of this article,
11 shall be deemed to:

12 a. not be an amendment or modification of any contract, security or
13 instrument; and

14 b. not prejudice, impair or affect any person's rights, interests or
15 obligations under or in respect of any contract, security or instrument.

16 5. Except as provided in either subdivision one or subdivision three
17 of section 18-401 of this article, the provisions of this article shall
18 not be interpreted as creating any negative inference or negative
19 presumption regarding the validity or enforceability of:

20 a. any benchmark replacement that is not a recommended replacement
21 benchmark;

22 b. any spread adjustment, or method for calculating or determining a
23 spread adjustment, that is not a recommended spread adjustment; or

24 c. any changes, alterations or modifications to or in respect of a
25 contract, security or instrument that are not benchmark replacement
26 conforming changes.

27 § 18-403. Severability. If any provision of this article or applica-
28 tion thereof to any person or circumstance is held invalid, the invalid-
29 ity shall not affect other provisions or applications of this article
30 that can be given effect without the invalid provision or application,
31 and to this end the provisions of this article shall be severable.

32 § 2. This act shall take effect immediately.