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**SUBSTITUTE SENATE BILL 5946**

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**State of Washington 67th Legislature 2022 Regular Session**

**By** Senate Business, Financial Services & Trade (originally sponsored by Senators Mullet and Nguyen)

AN ACT Relating to protecting consumers from the discontinuance of the London interbank offered rate; adding a new chapter to Title 19 RCW; and declaring an emergency.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec.**  DEFINITIONS. The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "Benchmark" means an index of interest rates or dividend rates that is used, in whole or in part, as the basis of or as a reference for calculating or determining any valuation, payment, or other measurement under or in respect of a contract, security, or instrument.

(2) "Benchmark replacement" means a benchmark, or an interest rate or dividend rate, which may or may not be based in whole or in part on a prior setting of the LIBOR, to replace the LIBOR or any interest rate or dividend rate based on the LIBOR, whether on a temporary, permanent, or indefinite basis, under or in respect of a contract, security, or instrument.

(3) "Benchmark replacement conforming changes" means, with respect to any type of contract, security, or instrument, any technical, administrative, or operational changes, alterations, or modifications that are associated with and reasonably necessary to the use, adoption, calculation, or implementation of a recommended benchmark replacement and that:

(a) Have been selected or recommended by a relevant recommending body; and

(b) If, in the reasonable judgment of the calculating person, the benchmark replacement conforming changes selected or recommended pursuant to (a) of this subsection do not apply to such contract, security, or instrument or are insufficient to permit administration and calculation of the recommended benchmark replacement, then benchmark replacement conforming changes shall include such other changes, alterations, or modifications that, in the reasonable judgment of the calculating person:

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

(ii) Would not result in a disposition of such contract, security, or instrument for United States federal income tax purposes.

(4) "Calculating person" means, with respect to any contract, security, or instrument, any person, which may be the determining person, responsible for calculating or determining any valuation, payment, or other measurement based on a benchmark.

(5) "Contract, security, or instrument" includes, without limitation, any contract, agreement, mortgage, deed of trust, lease, security, whether representing debt or equity, and including any interest in a corporation, a partnership, or a limited liability company, instrument, or other obligation.

(6) "Determining person" means, with respect to any contract, security, or instrument, in the following order of priority:

(a) Any person specified as a "determining person"; or

(b) Any person with the authority, right, or obligation to:

(i) Determine the benchmark replacement that will take effect on the LIBOR replacement date;

(ii) Calculate or determine a valuation, payment, or other measurement based on a benchmark; or

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

(7) "Fallback provisions" means terms in a contract, security, or instrument that set forth a methodology or procedure for determining a benchmark replacement, including any terms relating to the date on which the benchmark replacement becomes effective, without regard to whether a benchmark replacement can be determined in accordance with such methodology or procedure.

(8) "LIBOR" means, for purposes of the application of this chapter to any particular contract, security, or instrument, the United States dollar London interbank offered rate as administered by the intercontinental exchange benchmark administration limited or any predecessor or successor thereof, or any tenor thereof, as applicable, that is used in making any calculation or determination thereunder.

(9) "LIBOR discontinuance event" means the earliest to occur of any of the following:

(a) A public statement or publication of information by or on behalf of the administrator of the LIBOR announcing that such administrator has ceased or will cease to provide the LIBOR, permanently or indefinitely, provided that, at the time of the statement or publication, there is no successor administrator that will continue to provide the LIBOR;

(b) A public statement or publication of information by the regulatory supervisor for the administrator of the LIBOR, the United States federal reserve system, an insolvency official with jurisdiction over the administrator for the LIBOR, a resolution authority with jurisdiction over the administrator for the LIBOR or a court or an entity with similar insolvency or resolution authority over the administrator for the LIBOR, which states that the administrator of the LIBOR has ceased or will cease to provide the LIBOR permanently or indefinitely, provided that, at the time of the statement or publication, there is no successor administrator that will continue to provide the LIBOR; or

(c) A public statement or publication of information by the regulatory supervisor for the administrator of the LIBOR announcing that the LIBOR is no longer representative. For purposes of this subsection, a public statement or publication of information that affects one or more tenors of the LIBOR does not constitute a LIBOR discontinuance event with respect to any contract, security, or instrument that: (i) Provides for only one tenor of the LIBOR, if such contract, security, or instrument requires interpolation and such tenor can be interpolated from the LIBOR tenors that are not so affected; or (ii) permits a party to choose from more than one tenor of the LIBOR and any of such tenors (A) is not so affected, or (B) if such contract, security, or instrument requires interpolation, can be interpolated from the LIBOR tenors that are not so affected.

(10) "LIBOR replacement date" means:

(a) In the case of a LIBOR discontinuance event described in subsection (9)(a) and (b) of this section, the later of: (i) The date of the public statement or publication of information referenced therein; and (ii) the date on which the administrator of the LIBOR permanently or indefinitely ceases to provide the LIBOR; and

(b) In the case of a LIBOR discontinuance event described in subsection (9)(c) of this section, the date of the public statement or publication of information referenced therein. For purposes of this subsection, a date that affects one or more tenors of the LIBOR does not constitute a LIBOR replacement date with respect to any contract, security, or instrument that: (i) Provides for only one tenor of the LIBOR, if such contract, security, or instrument requires interpolation and such tenor can be interpolated from the LIBOR tenors that are not so affected; or (ii) permits a party to choose from more than one tenor of the LIBOR and any of such tenors (A) is not so affected, or (B) if such contract, security, or instrument requires interpolation, can be interpolated from the LIBOR tenors that are not so affected.

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

(12) "Recommended spread adjustment" means a spread adjustment, or method for calculating or determining such spread adjustment, which may be a positive or negative value or zero, that shall have been selected or recommended by a relevant recommending body for a recommended benchmark replacement for a particular type of contract, security, or instrument and for a particular term to account for the effects of the transition or change from the LIBOR to a recommended benchmark replacement.

(13) "Relevant recommending body" means the federal reserve board, the federal reserve bank of New York, the alternative reference rates committee, or any successor to any of them.

(14) "SOFR" means, with respect to any day, the secured overnight financing rate published for such day by the federal reserve bank of New York, as the administrator of the benchmark or a successor administrator, on the federal reserve bank of New York's website.

NEW SECTION. **Sec.**  EFFECT OF THE LIBOR DISCONTINUANCE ON AGREEMENTS. (1) On the LIBOR replacement date, the recommended benchmark replacement shall, by operation of law, be the benchmark replacement for any contract, security, or instrument that uses the LIBOR as a benchmark and:

(a) Contains no fallback provisions; or

(b) Contains fallback provisions that result in a benchmark replacement, other than a recommended benchmark replacement, that is based in any way on any LIBOR value.

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

(3) This subsection applies to any contract, security, or instrument that uses the LIBOR as a benchmark and contains fallback provisions that permit or require the selection of a benchmark replacement that is:

(a) Based in any way on any LIBOR value; or

(b) The substantive equivalent of section 3(1) (a) through (c) of this act. A determining person shall have the authority under this chapter, but shall not be required, to select on or after the occurrence of a LIBOR discontinuance event the recommended benchmark replacement as the benchmark replacement. Such selection of the recommended benchmark replacement shall be:

(i) Irrevocable;

(ii) Made by the earlier of either the LIBOR replacement date, or the latest date for selecting a benchmark replacement according to such contract, security, or instrument; and

(iii) Used in any determinations of the benchmark under or with respect to such contract, security, or instrument occurring on and after the LIBOR replacement date.

(4) If a recommended benchmark replacement becomes the benchmark replacement for any contract, security, or instrument pursuant to subsection (1) or (3) of this section, then all benchmark replacement conforming changes that are applicable, in accordance with the definition of benchmark replacement conforming changes, to such recommended benchmark replacement shall become an integral part of such contract, security, or instrument by operation of law.

(5) The provisions of this chapter shall not alter or impair:

(a) Any written agreement by all requisite parties that, retrospectively or prospectively, provides, without necessarily referring specifically to this chapter, a contract, security, or instrument shall not be subject to this chapter. For purposes of this subsection, "requisite parties" means all parties required to amend the terms and provisions of a contract, security, or instrument that would otherwise be altered or affected by this chapter;

(b) Any contract, security, or instrument that contains fallback provisions that would result in a benchmark replacement that is not based on the LIBOR including, but not limited to, the prime rate or the federal funds rate, except that such contract, security, or instrument shall be subject to subsection (2) of this section;

(c) Any contract, security, or instrument subject to subsection (3) of this section as to which a determining person does not elect to use a recommended benchmark replacement pursuant to subsection (3) of this section or as to which a determining person elects to use a recommended benchmark replacement prior to the occurrence of a LIBOR discontinuance event, except that such contract, security, or instrument shall be subject to subsection (2) of this section; or

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

(6) Notwithstanding the uniform commercial code or any other law of this state, this chapter shall apply to all contracts, securities, and instruments, including contracts with respect to commercial transactions, and shall not be deemed to be displaced by any other law of this state.

NEW SECTION. **Sec.**  CONTINUITY OF CONTRACT AND SAFE HARBOR. (1) The selection or use of a recommended benchmark replacement as a benchmark replacement under or in respect of a contract, security, or instrument by operation of section 2 of this act shall constitute:

(a) A commercially reasonable replacement for and a commercially substantial equivalent to the LIBOR;

(b) A reasonable, comparable, or analogous term for the LIBOR under or in respect of such contract, security, or instrument;

(c) A replacement that is based on a methodology or information that is similar or comparable to the LIBOR; and

(d) Substantial performance by any person of any right or obligation relating to or based on the LIBOR under or in respect of a contract, security, or instrument.

(2) None of: (a) A LIBOR discontinuance event or a LIBOR replacement date; (b) the selection or use of a recommended benchmark replacement as a benchmark replacement; or (c) the determination, implementation, or performance of benchmark replacement conforming changes, in each case, by operation of section 2 of this act, shall:

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

(ii) Have the effect of: (A) Discharging or excusing performance under any contract, security, or instrument for any reason, claim, or defense including, but not limited to, any force majeure or other provision in any contract, security, or instrument; (B) giving any person the right to unilaterally terminate or suspend performance under any contract, security, or instrument; (C) constituting a breach of a contract, security, or instrument; or (D) voiding or nullifying any contract, security, or instrument.

(3) A person shall not have any liability for damages to any person or be subject to any claim or request for equitable relief arising out of or related to the selection or use of a recommended benchmark replacement or the determination, implementation, or performance of benchmark replacement conforming changes, in each case, by operation of section 2 of this act, and such selection or use of the recommended benchmark replacement or such determination, implementation, or performance of benchmark replacement conforming changes shall not give rise to any claim or cause of action by any person in law or in equity.

(4) The selection or use of a recommended benchmark replacement or the determination, implementation, or performance of benchmark replacement conforming changes, by operation of section 2 of this act, shall be deemed to:

(a) Not be an amendment or modification of any contract, security, or instrument; and

(b) Not prejudice, impair, or affect any person's rights, interests, or obligations under or in respect of any contract, security, or instrument.

(5) Except as provided in either section 2 (1) or (3) of this act, the provisions of this chapter shall not be interpreted as creating any negative inference or negative presumption regarding the validity or enforceability of:

(a) Any benchmark replacement that is not a recommended benchmark replacement;

(b) Any spread adjustment, or method for calculating or determining a spread adjustment, that is not a recommended spread adjustment; or

(c) Any changes, alterations, or modifications to or in respect of a contract, security, or instrument that are not benchmark replacement conforming changes.

NEW SECTION. **Sec.**  Sections 1 through 3 and 6 of this act constitute a new chapter in Title 19 RCW.

NEW SECTION. **Sec.**  If any provision of this act or its application to any person or circumstance is held invalid, the remainder of the act or the application of the provision to other persons or circumstances is not affected.

NEW SECTION. **Sec.**  This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect immediately.

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