

Implications of Negative Interest Rates

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The Bank of Canada has announced that it has lowered its interest rate to 0.75% (a drop of 50 basis points in the overnight rate) and the US Federal Reserve cut interest rates to 0%. The ECB and other major central banks and treasuries are also expected to lower their interest rates, with some contemplating negative interest rates, which have been used by the Bank of Japan since 2016. This signifies that we are facing the potential for negative interest rates in North America.

Now is the time to undertake a review of existing transaction documents (including credit, leasing, hedging and loan documentation) in order to check if the reference rates used in these transactions include an interest rate floor. This will be especially important for those with variable rate arrangements as reference rates approach 0% or fall into negative territory.

Given these announcements, and as we are all faced with the COVID-19 pandemic and parties prepare to transition away from LIBOR, we expect to see increased market volatility relating to interest rates in the coming months. The Banking & Specialty Finance Group at Cassels is available to assist with document review and queries regarding the interest rate provisions.

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