



IBOR TRANSITION

Market Update as of 01/08/2021

1. GLOBAL DEVELOPMENTS

ISDA CONSULTATION RESULTS ON FALLBACKS FOR GBP AND USD IRS (23 JULY 2021)

ISDA have [announced](#) the results of its [consultation](#) on the implementation of fallbacks for GBP and USD LIBOR ICE Swap Rate. The results indicate a **significant majority of respondents agree with the fallback provisions** set out in the draft amendments attached to the consultation, which implement the fallbacks **suggested** by the Non-Linear Task Force of the **WG on GBP** and a Subcommittee of the **ARRC in the US**.

ISDA will begin finalizing the amendments to implement fallbacks for the GBP LIBOR ISR as soon as possible and for USD LIBOR ISR when a SOFR swap rate is published in a form that can be referenced in financial instruments.

‘RFR FIRST’ INITIATIVE & CROSS-CURRENCY SWAPS SWITCH

- **Several initiatives have emerged** from different RFR Working Groups: ‘[SOFR first](#)’, ‘[SARON first](#)’ and ‘[TONA first](#)’ to recommend to interdealer market participants to change the **quoting conventions from LIBORs to each currency’ risk-free rate** in the interest rate swaps markets.
- Euro RFRWG [published](#) recommendations on ‘**€STR first**’ Initiative and a common start date to switch the quoting convention for cross-currency swaps involving non-Euro currencies.
- The switch to RFRs in the LIBOR cross-currency interdealer swaps market from **21 September** has been endorsed in multiple jurisdictions already (see [FCA and BOE joint statement](#), [ARRC endorsement](#) and [SNB Support](#)).

2. US MARKET DEVELOPMENTS

ARRC ISSUES TERM SOFR RATE CONVENTIONS AND BEST PRACTICES (26 JULY 2021)

ARRC recommended [loan conventions](#) and [best practices](#) for how best to employ SOFR term rates to successfully transition away from USD Libor:

- The term rates will be especially **helpful for the business loans market**—particularly multi-lender facilities, middle market loans, and trade finance loans—where transitioning from LIBOR to an overnight rate has been difficult.
- The Best Practice Recommendations also support the use of SOFR Term Rates in **end-user facing derivatives that hedge cash instruments** linked to the Term Rates, and certain securitizations with underlying assets that are themselves tied to SOFR Term Rates.

ARRC FORMALLY RECOMMENDS TERM SOFR (29 JULY 2021)

The ARRC announced on July 29th, that it is now formally recommending [CME Group’s forward-looking SOFR term rates](#), following the completion of [a key change](#) in interdealer trading conventions on July 26, 2021 under the SOFR First initiative. The ARRC’s formal recommendation of SOFR Term Rates is a major milestone in the transition away from U.S. dollar (USD) LIBOR, providing market participants with an essential transition tool and marking the completion of the [Paced Transition Plan](#) that the ARRC outlined in 2017 and has been working toward since.

3. EURO MARKET DEVELOPMENTS

EUROPEAN COMMISSION INITIATIVE ON STATUTORY FALLBACK FOR EONIA AND LIBOR

Chair of the Euro RFRWG has [written](#) to Tilman Lueder head of Securities Markets at the EC **requesting support for the transition from EONIA to €STR**, setting out data on outstanding EONIA exposures across derivatives and CSAs, and highlighting the importance of having a statutory solution in place before the end of Q3 2021. Since then, the European Commission [published](#) its draft Implementing Act (IA) for **a statutory replacement rate for EONIA**.

A dedicated [Taskforce](#) within the EUR RFR WG is set up to make a statutory fallback recommendation to the EC on LIBORs in line with the recommendations given by the corresponding working groups.

EUROPEAN COMMISSION CONSULTATION ON DERIVATIVE TRADING AND CLEARING OBLIGATIONS (9 JULY 2021)

The European Securities and Markets Authority (ESMA), the EU's securities markets regulator, [launched](#) a consultation on the review of the regulatory technical standards (RTS) specifying classes of derivatives subject to the clearing (CO) and trading obligations (DTO) under EMIR and MiFID regulations.

4. STERLING MARKET DEVELOPMENTS

WG ON STERLING RFRS (JULY 2021)

Last week the Working Group for Sterling Risk Free Reference Rates (RFR WG) [published](#) a paper to assist borrowers in understanding and achieving the end-Q3 milestone for active transition, where viable, of legacy GBP LIBOR loans expiring after 2021.

STANDARD ON USE OF TERM SONIA REFERENCE RATES (28 JULY 2021)

The FICC Markets Standards Board (“FMSB”) [published](#) its final Standard on the use of Term SONIA reference rates. This Standard applies to participants in Sterling fixed income and wholesale lending markets, including Sterling legs of multi-currency products.

FCA CONSULTATION ON LIBOR TRANSITION AND THE DERIVATIVES TRADING OBLIGATION (14 JULY 2021)

The FCA is [consulting](#) on proposals to modify the list of derivatives subject to the Derivatives Trading Obligation (DTO) in line with Articles 28 and 32 of UK MiFIR. This review of the DTO completes the recent BoE consultation to modify the derivatives clearing obligation in line with Article 5 of UK EMIR.

5. ASIAN MARKET DEVELOPMENTS

RESERVE BANK OF INDIA TELLS BANKS TO PREPARE FOR LIBOR TRANSITION

The Reserve Bank of India (RBI) has [issued](#) a directive instructing banks to prepare for the IBOR transition and to cease issuing new LIBOR-linked contracts as soon as practical and no later than 31 December.

NAFMII AND ISDA IBOR FALLBACK DOCUMENTS

On July 30, 2021, NAFMII and ISDA announced the publication of two IBOR fallbacks documents under 2009 NAFMII Master Agreement (“NAFMII IBOR Fallbacks Documents”): (i) a multilateral amendment agreement (for legacy transactions) (ii) an IBOR fallbacks definitions booklet (for new transaction). they will come into effect on October 29, 2021 (“Effective Date”).

6. MARKET NEWS

- Société Générale and Citi [executed](#) first SARON/SOFR swap with LCH SwapAgent.
- BAFT Trade Finance Group launched a [report](#) on the impact of the transition in trade finance.
- Clarus FT published an analysis of the SOFR activity on July [26](#) and [27](#) at the start of ‘SOFR first’.
- ISDA published its monthly [ISDA-Clarus RFR Adoption Indicator](#) for interest rate derivatives (IRD).
- LMA updated its [list](#) of RFRs referencing syndicated and bilateral loan.

7. STAY INFORMED ON THE IBOR TRANSITION

More information on our website: [click here to access our dedicated IBOR transition webpage](#).

Contact us for any queries: sgcib-regulatory-support.par@sgcib.com.

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