



# **IBOR TRANSITION**

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Market Update as of 01/05/2021

## 1. US DEVELOPMENTS

### PROPOSALS FOR CREDIT SENSITIVE TERM RATES

[Credit sensitive reference rates are being developed](#) and several [key providers](#) have come forward (Bloomberg Short Term Bank Yield Index, IHS Markit, ICE Bank Yield Index, Cboe for AMERIBOR). However, national Working Groups did not endorse their use and their adoption is left to market participants' choice.

### CME TERM RATES (NON-CREDIT SENSITIVE)

CME Group [has announced](#) the availability of CME Term SOFR Reference Rates for 1, 3 and 6- month tenors based on underlying SOFR futures. CME has stated that this benchmark is BMR and IOSCO compliant and available for licensing for use in loans and cash market products.

Reminder: ARRC [has stated](#) that it will not be in a position to recommend a forward-looking SOFR term.

### ARRC PRINCIPLES FOR A FORWARD-LOOKING SOFR TERM RATE (NON-CREDIT SENSITIVE)

ARRC has announced [key principles](#) that should guide the building of a forward-looking SOFR term rate. ARRC has long recognized that the use of a term rate may be a useful supporting tool but for a limited set of use cases and only once sufficient liquidity exists in derivatives market.

## 2. ASIA DEVELOPMENTS

### CONFIRMATION OF TIMELINES TO CEASE JPY LIBOR AND PROMOTE TONA

The Cross-Industry Committee on JPY Interest Rate updated the “[roadmap to prepare for the discontinuation of JPY Libor](#)” and based on the “[report from the Sub-Group for the Development of Term Reference Rates](#)”, the committee [confirmed](#):

- End of September 2021 to stop trading new interest rate swaps referring to JPY LIBOR except for the purpose of risk management of existing positions.
- TONA will be the main alternative benchmark for JPY interest rate. Other benchmarks such as TORF and TIBOR can remain alternatives depending on the purpose of the trade.
- New quoting conventions based on TONA shall be adopted by no later than end of July 2021.

### TERM RATE UPDATES

QUICK Corp. [has announced](#) that QUICK Benchmarks Inc.(QBS) will calculate and publish production rates of Tokyo Term Risk-Free Rate (TORF) for actual trading from 26 April 2021. Daily prototype TORF rates have been available since October 2020.

### TSR CONSULTATION

REFINITIV [started](#) publishing the prototype rates for the TONA-based TSR and continues work on the calculation and publication of the production rates for TONA TSR and the fallback rates for LIBOR TSR, and is conducting a public [consultation](#) regarding these matters.

### SUPERVISORY EXPECTATIONS FOR BENCHMARKS TRANSITION

In its circular, MAS supports SC-STS timelines for SOR and SIBOR discontinuation and expects all Financial Institutions to proactively comply with plans based on customer engagement principles to help their clients prepare for the transition: to this end, Financial Institutions should consider MAS' guidelines on Fair Dealing.

### **3. UK DEVELOPMENTS**

#### **ACTIVE TRANSITION OF LEGACY GBP LIBOR CONTRACTS AND OPERATIONAL CONSIDERATIONS FOR FALLBACKS IN NON-CLEARED LINEAR DERIVATIVES**

The RFRWG has published a [statement](#) reminding market participants of the focus on active transition in the Working Group's recommended milestones:

*By end-Q1 2021, complete identification of all legacy GBP LIBOR contracts expiring after end 2021 that can be actively converted, and progress in active conversion where viable through to completion by end-Q3 2021.*

Alongside this statement, the Working Group published a further [document](#) in which it recommends the active transition of contracts ahead of GBP LIBOR cessation as the primary method to ensure contractual certainty and retain economic control.

#### **IBA LAUNCHES ICE SONIA INDICES TO ASSIST UK LOAN MARKETS TRANSITION TO SONIA**

IBA [launched](#) ICE SONIA Indexes to facilitate the transition away from LIBOR in the GBP lending markets. Developed to help address [key operational considerations](#) of lenders and borrowers of SONIA-based loans including the option for a zero floor, lookbacks and facilitating accounting for loan accruals, being produced on weekends and holidays.

#### **FCA POWERS AND POSITION WITH NEW USD LIBOR USE**

After the Federal Reserve wrote to supervised entities warning against new Libor usage after 2021, the UK top supervisor-FCA also [warned](#) firms which will continue to use USD Libor in new contracts.

#### **SUPPORTING [TRANSITION FROM LIBOR IN STERLING STRUCTURED PRODUCTS](#)**

The RFRWG [released](#) a paper considering how a sterling structured product could be designed using compounded in arrears SONIA, and sets out considerations for the transition of existing sterling structured products from GBP LIBOR to SONIA.

#### **CASE STUDIES FOR NAVIGATING CONDUCT RISKS IN BACK BOOK TRANSITION**

The FMSB published a [new Spotlight Review on LIBOR back book transition](#), looking at how market participants may manage potential conduct risks arising in back book transition.

## 4. MARKET NEWS

- ARRC [announced](#) it will host the second event in its series of webinars, the SOFR Symposium: The Final Year.
- ISDA Clarus [RFR Adoption indicator](#) decreased to 8.8% in March compared to 10.6% the prior month. On a traded notional basis, the percentage of RFR-linked IRD decreased to 9.3% of total IRD in March compared to 11.0% the prior month. GBP saw the largest percentage of RFR-linked IRD risk traded at 44.9% of total GBP IRD DV01, whereas only 4.7% of USD IRD DV01 was transacted in SOFR in March, down from 5.1% the prior month.
- ISDA: held the [Benchmarks Strategies Forum](#), an event discussing timetable for LIBOR's cessation, the transitioning of derivatives, and discussions with prominent industry figures.
- ISDA [published](#) a [research note](#) summarizing the major developments in the transition to RFRs in 2021.
- LMA [published](#) loans referencing risk-free rates, International Public Partners 'INPP', the listed infrastructure investment company, [renewed](#) its corporate debt facility for a further three years to March 2024 securing £250m available for drawing in sterling and euros.
- Bank of Canada: [began](#) the publication of a CORRA index on 6 April 2021.

## 5. 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](mailto:sgcib-regulatory-support.par@sgcib.com).

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