IBOR TRANSITION

Market Update as of 01/04/2021

1. GLOBAL DEVELOPMENTS

FCA ANNOUNCEMENT ON FUTURE CESSATION AND LOSS OF REPRESENTATIVENESS OF THE LIBOR BENCHMARKS

On 5 March 2021, the UK FCA has announced the dates at which panel bank submissions for all LIBOR settings will cease, after which LIBOR rates **will no longer be made available:**

- EUR, CHF, JPY & GBP LIBOR settings and USD LIBOR settings 1-week and 2-month will cease to be published and lose representativeness immediately after 31 December 2021;
- Remaining USD LIBOR settings will cease to be published and lose representativeness immediately after 30 June 2023.

The FCA also confirmed that:

- On GBP LIBOR, it will consult on requiring IBA to continue to publish the 1-month, 3-month and 6-month settings for a further period after end-2021 on a synthetic basis;
- On JPY LIBOR, it will consult on requiring IBA to continue to publish the 1-month, 3-month and 6-month settings for one additional year on a synthetic basis;
- On USD LIBOR, it will continue to consider the case for using its proposed powers to require continued publication on a synthetic basis of the 1-month, 3-month and 6-month settings for a further period after end of June 2023, taking into account views and evidence from US authorities and other stakeholders.

The Bank of England Governor Andrew Bailey says this marks the "final chapter" for LIBOR: "**With limited time remaining, my message to firms is clear - act now and complete your transition.**"

2. EUROPE DEVELOPMENTS

ECB STARTS PUBLISHING COMPOUNDED €STR AVERAGE RATES

ECB announced it will start publishing compounded €STR average rates and compounded index for non-standard tenor as of 15 April 2021. Average rates to cover 1-week, 1-month, 3-month, 6-month and 12-month tenors.

EUROPEAN COMMISSION CONSULTATION ON STATUTORY FALLBACK RATE FOR CHF LIBOR

The consultation by the European Commission is **the first to assess the suitability of designating a statutory replacement** for CHF LIBOR to consumer, mortgage and SME loans concluded prior to 1 January 2018.

3. UK DEVELOPMENTS

DEAR CEO LETTER: ‘TRANSITION FROM LIBOR TO RISK FREE RATES’

The PRA and FCA have written a joint letter (Dear CEO letter) to CEO's of supervised firms, setting out supervisory expectations of the transition from LIBOR to risk free rates. The letter sets out a list of priority areas where further action by firms is necessary to prepare for the cessation of LIBOR.

USE OF SONIA TERM RATES

UK regulators would prefer the sterling market to be based on SONIA compounded in arrears but recognize there may be specific parts of the market that need the term SONIA reference rates, primarily in cash markets. FMSB published a proposed standard for appropriate use of TSRRs.

STERLING RFRWG'S END-Q1 2021 RECOMMENDED MILESTONE-SUPPORTING MATERIALS

The Sterling RFRWG released several updates including:

- A path to ending new GBP LIBOR-linked derivatives; and a paper supporting the transition of non-linear derivatives referencing GBP LIBOR Ice Swap rate.
- A Q&A document addressing questions market participants may have when preparing to cease new issuance of GBP LIBOR-linked loans by the end of March 2021.
- A Best Practice Guide for GBP loans maturing post 2021.

4. ASIA DEVELOPMENTS

New timelines for SOR & SIBOR Transition to SORA

The SC-STS published a report announcing new industry timelines to cease issuance of SOR derivatives and SIBOR-linked financial products by end of September 2021, cease usage of SOR in new cash market products by end of April 2021 with SOR now set to be discontinued later in mid-2023.

5. U.S. DEVELOPMENTS

New York Adopts LIBOR Legislation

On 7 April 2021, New York State Governor Andrew Cuomo signed the LIBOR legislation into law — "a step that will help to minimize legal uncertainty and adverse economic impacts associated with the transition from LIBOR. Initially presented by the ARRC last year, this new law addresses the issue of legacy contracts that mature after mid-2023 and do not have effective fallbacks."

FED SUPERVISORY GUIDANCE ON TRANSITION PREPAREDNESS

The Fed published a supervision and regulation letter (SR 21-7) to assist examiners in their assessment of firms' progress in the transition away from LIBOR.

ARRC URGES MARKET PARTICIPANTS NOT TO WAIT FOR A FORWARD-LOOKING SOFR TERM RATE

ARRC has stated that it " **will not be in a position to recommend a forward-looking SOFR term rate** by mid-2021, and cannot guarantee that it will be in a position to recommend an administrator that can produce a robust forward-looking term rate by the end of 2021". Accordingly, ARRC encourages market participants to continue **to transition from LIBOR using the tools available now**.

QUARLES' KEYNOTE SPEECH

At the SOFR Symposium: The Final Year, the Fed Vice Chair for Supervision Randal Quarles warned that **banks might face penalties if they continue to use USD LIBOR as a reference rate beyond 31 December 2021** and that "These announcements (FCA Announcements) **are absolutely not meant to support new LIBOR activity or continued business as usual**. They are meant to **completely end the new use of LIBOR** while allowing a significant portion of legacy contracts to roll off before the key dollar LIBOR tenors stop publication."

ARRC CHOOSES REFINITIV AS PUBLISHER OF ITS SPREAD ADJUSTMENT RATES FOR CASH PRODUCTS

ARRC announced it has selected Refinitiv to publish its **recommended spread adjustments** to SOFR-based rates and spread-adjusted SOFR-based rates **for cash products**. These are analogous to the fallback rates included in ISDA's IBOR protocol for derivative contracts.

SUPPLEMENTAL VERSIONS OF ARRC RECOMMENDATION OF HARDWIRED FALLBACK FOR CORPORATE LOANS

ARRC released supplemental versions of its recommendation of hardwired fallback language for USD LIBOR denominated syndicated and bilateral business loans. The supplemental recommendation sets out abridged versions of the 2020 fallback language for syndicated business loans and bilateral business loans incorporating the certainty on fallback timing and economics afforded by the March 5th announcements.

6. MARKET DEVELOPMENTS

ISDA Clarus RFR Adoption indicator increased to 10.6% in February compared to 10.0% the prior month. On a traded notional basis, the percentage of RFR-linked IRD decreased to 11.0% of total IRD in February compared to 11.8% the prior month. GBP saw the largest percentage of RFR-linked IRD risk traded at 45.7% of total GBP IRD DV01, whereas only 5.1% of USD IRD DV01 was transacted in SOFR, down from 5.6% the prior month.

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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