



# **IBOR TRANSITION**

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Market Update as of 01/06/2021

## 1. FCA CONSULTATION ON SYNTHETIC LIBOR (20 MAY 2021)

FCA [published](#) a consultation on its proposed policy framework for exercising two of its new powers under the Financial Services Act 2021 (FS Act). These powers will enable the FCA:

- To permit certain legacy use of an article 23A benchmark.
- To restrict the new use of a critical benchmark which cessation is announced.

Full consultation text is available [here](#).

Considering the feedback received, FCA intends to consult in Q3 2021 on precisely what legacy use to allow for any synthetic GBP and JPY Libor and how to restrict new use of Libor rates, including USD LIBOR. The FCA will confirm its decisions in Q4 2021.

## 2. FSB AND IOSCO STATEMENTS (2 JUNE 2021)

[FSB](#) and [IOSCO](#) issued statements to support a smooth transition away from LIBOR in line with messages by the Libor ad hoc transition working groups.

## 3. US MARKET DEVELOPMENTS

### ARRC TERM RATES UPDATE (6 & 21 MAY 2021)

ARRC released a set of [market indicators](#) for an ARRC-recommended forward-looking SOFR term rate. It [concluded its RFP process](#), selecting CME Group as the administrator that it plans to recommend for SOFR term rate, once the market indicators are met.

### IHS MARKIT LAUNCHES CREDIT-SENSITIVE LIBOR ALTERNATIVES (1 JUNE 2021)

IHS Markit [has launched](#) two new interest rates benchmarks (USD Credit Inclusive Term Rate (CRITR) and USD Credit Inclusive Term Spread (CRITS)) that aim to replicate the funding and credit components of Libor, making it the third index provider to offer a credit-sensitive alternative to SOFR. Both benchmarks are available in 1-day, 1-month, 3-months, 6-months and 12-month term settings.

### BSBY DEVELOPMENTS (24 MAY 2021)

CME [announced](#) plans to launch futures in Q3-2021 referencing Bloomberg Short-Term Bank Yield Index (BSBY) and expects to begin clearing OTC BSBY swaps during Q4.

### ARRC HOSTS SECOND SOFR SYMPOSIUM (11 MAY 2021)

ARRC held the second in a series of webinars, [The SOFR Symposium: The Final Year](#). It featured insights from the FSB Official Sector Steering Group (OSSG) Co-Chairs, Fed's President (J C. Williams) and BoE's Governor (A. Bailey), as well as a roundtable on SOFR, term rates, and loan market developments. The speeches focused on the move away from LIBOR and noted that using robust overnight risk-free rates will help to create a more resilient and transparent financial system. A [transcript of John Williams' remarks](#) are available, and further details regarding Andrew Bailey's remarks can be found [here](#).

**UPDATED GUIDE TO PUBLISHED SOFR AVERAGES (11 MAY 2021)**

ARRC released a [Guide](#) focusing on SOFR averages and the factors to be considered by market participants when selecting such methodology. For a more exhaustive overview of options for using averages of SOFR, ARRC encourages market participants to refer to the [ARRC User's Guide to SOFR](#).

**SOFR FIRST CONVENTION SWITCH (MAY 2021)**

Market Risk Advisory Committee (MRAC) subcommittee advised the Commodity Futures Trading Commission (CFTC) to change USD linear swap trading conventions to SOFR by 26 July 2021 and keep Libor screens available for informational purposes until 22 October 2021. Additionally, MRAC recognizes that the ARRC has identified this market conventions change as important to the potential recommendation of a term SOFR rate.

**4. STERLING MARKET DEVELOPMENTS****RECOMMENDATION OF SUCCESSOR RATE FOR FALLBACKS IN GBP LIBOR BOND DOCUMENTATION (18 MAY 2021)**

UK RFR WG published a [statement](#) recommending the use of overnight SONIA, compounded in arrears, as the successor for bond documentation referencing GBP LIBOR that contains contractual fallbacks which result in the selection of a recommended successor rate as a fallback.

**IBA'S CONSULTATION ON THE POTENTIAL CESSATION OF GBP LIBOR ICE SWAP RATE (MAY 2021)**

IBA released a [consultation](#) on its intention to cease the publication of GBP LIBOR ICE Swap Rate. The consultation addresses IBA's expectation that there will not be sufficient input data for the rate after 31 December 2021. IBA also noted they expect to consult on the potential cessation of the USD LIBOR ICE Swap Rate.

**SONIA FIRST CONVENTION SWITCH (13 MAY 2021)**

BoE and FCA issued a [joint statement](#) encouraging market users and liquidity providers in the sterling exchange traded derivatives market to switch the market's default traded instrument to SONIA from LIBOR beginning 17 June. The statement follows close engagement with market participants and the switch should facilitate a further shift in SONIA market liquidity.

**BOE AND FCA CONSULTATIONS ON DERIVATIVES CLEARING AND TRADING OBLIGATION (20 MAY 2021)**

BoE issued a [consultation](#) in which it proposes to modify the scope of contracts which are subject to the UK EMIR derivatives clearing obligation to reflect the ongoing reforms to interest rate benchmarks. Additionally, FCA noted that it would consult on the consequences of Libor transition for the Derivatives Trading Obligation (DTO) later this summer.

## 5. EURO MARKET DEVELOPMENTS (11 MAY 2021)

The WG on euro RFRs published recommendations on €STR-based Euribor fallback rates and trigger events. These [final recommendations](#) considered feedback from two-market wide [consultations](#) on the draft recommendations from November 2020.

## 6. ASIAN MARKET DEVELOPMENTS (MAY 2021)

HKEX [announced](#) it began clearing cross-currency swaps and basis swaps referencing HONIA and SOFR.

## 7. MARKET NEWS

- ARRC [announced](#) its third event in its SOFR Symposium series, which will take place on 8 June 2021.
- ISDA Clarus [RFR Adoption indicator](#) increased to 10.1% in April compared to 8.7% the prior month. On a traded notional basis, the percentage of RFR-linked IRD increased to 10.8% of total IRD in April. GBP saw the largest percentage of RFR-linked IRD risk traded at 51.0% of total GBP IRD DV01 whereas SOFR was only 7.5% of total USD IRD DV01 transacted in April.
- [LMA updated its list of risk-free rates referencing syndicated and bilateral loans](#) with [Iberdrola](#) and [Wickes Group Plc](#) signing public loans referenced to compounded SONIA and SOFR with EURIBOR for euros.

## 8. 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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