



# **IBOR TRANSITION**

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Market Update as of 01/10/2021

## 1. GLOBAL MARKET DEVELOPMENTS

### FCA CONSULTATION CP21/29: PROPOSED DECISIONS ON THE USE OF LIBOR (29 SEPTEMBER)

The FCA issued a [consultation](#) in which it proposes (1) to permit legacy use of synthetic sterling and Japanese yen LIBOR in all contracts except cleared derivatives (at least for the duration of 2022). And (2) to prohibit new use of the continuing 5 US LIBOR settings from end-2021 except for risk management purposes (deadline for responses is 20 October).

### FCA DECISIONS AFTER CP21/19 CONSULTATION PROPOSAL (29 SEPTEMBER)

The FCA has [decided](#) to exercise its power under Article 21(3) of the BMR to compel the continued publication of the 1-, 3- and 6-month GBP and JPY LIBOR settings for a limited time period after end-2022, using a 'synthetic' methodology. The FCA has also confirmed the changed [methodology](#) that will be required from the "IBA" for calculating these 'synthetic' rates. (Summary [here](#))

### IOSCO STATEMENT ON CREDIT SENSITIVE RATES (8 SEPTEMBER)

Considering some alternatives being suggested, notably Credit Sensitive Rates (CSRs), IOSCO calls for greater attention to Principles 6 "relative size of the underlying market in relation to the volume of trading" and 7 "data sufficiency in a benchmark's design to accurately and reliably represent the underlying market". Therefore, Benchmark administrators of CSRs should consider how their benchmarks would continue to meet Principles 6 and 7 over time if use of that benchmark became widespread.

### IBA RISK-FREE-RATE INDICES

ICE Benchmark Administration has announced the launch of [ICE risk-free-rates indices](#) in US dollar for SOFR, euro for €STR and Japanese yen for TONA. The indices will be published daily and provide lookback options to help with the calculation of interest for financial contracts.

### FED & FCA LETTERS TO THE ISDA (20 SEPTEMBER)

ISDA received [letters](#) from the Fed and UK FCA, to modify the fallbacks language related to the BSBY in order to remove references to supervisory authorities. The Association also noted that the FCA is following the Fed's position, and does not intend to endorse or convene any committee for the purpose of recommending any replacement rate for BSBY or other new credit sensitive rates.

## 2. US MARKET DEVELOPMENTS

### FRBNY GENERAL COUNSEL SPEECH ON LIBOR TRANSITION - SWAPS & LOANS (15 SEPTEMBER)

Michael Held, Executive Vice President and General Counsel reiterates that firms need to have stopped using LIBOR for all new exposures and landed safely on robust alternatives. "That's not only a recommendation or best practice", it's explicit supervisory guidance.

He highlights three main issues:

- Inertia in the loan market, especially the syndicated loan market: "Lending in alternative rates is not where it should be at this point".
- Use of credit-sensitive rates, their reliability to represent their underlying markets and their resilience during time of stress.

- Robustness of Fallback language for contracts maturing after June-2023.

### **ARRC HOSTS THE FIFTH SOFR SYMPOSIUM (20 SEPTEMBER)**

The fifth [SOFR symposium](#) held on 20 September, covered the transition from the perspective of the US Securities and Exchange Commission (SEC) and buy-side institutions, and featured remarks by SEC Chair **Gary Gensler** followed by a discussion featuring leadership from the buy-side on their experience transitioning away from LIBOR, how SOFR supports their efforts, and the impacts of U.S. supervisory guidance about the transition.

## **3. EURO MARKET DEVELOPMENTS**

### **EUR RISK-FREE-RATES WORKING GROUP LETTER TO THE EUROPEAN COMMISSION**

The Chairman of the Euro Risk Free Rates Working Group has [written](#) to the European Commission, suggesting some refinements related to the scope of the statutory replacement rate and date of application of the designation.

## **4. ASIAN MARKET DEVELOPMENTS**

### **PUBLIC CONSULTATION ON THE TREATMENT OF TOUGH LEGACY CONTRACTS IN JAPAN (28 SEPTEMBER)**

The Cross Industry Committee on Japanese Yen Interest Rate Benchmarks published a [consultation](#) on the treatment of tough legacy contracts in Japan. The consultation seeks comments on: (1) views on contracts that fall under the category of tough legacy contracts and for which the use of synthetic yen LIBOR may be considered, and (2) matters that contracting parties should keep in mind when actually considering the use of synthetic yen LIBOR.

### **REFINITIV'S TOKYO SWAP RATE & JPY LIBOR TSR FALLBACK (SEPTEMBER 2021)**

Refinitiv started [publishing](#) TONA TSR and the JPY LIBOR TSR Fallback as prototypes. TONA TSR will become a production benchmark towards the end of October. The JPY LIBOR TSR Fallback will be introduced at the same time as the TONA TSR prototype. It is noted that the JPY LIBOR TSR fallbacks are only intended for use after the cessation of JPY LIBOR.

## **5. UK DEVELOPMENTS**

### **CRITICAL BENCHMARKS (REFERENCES AND ADMINISTRATORS LIABILITY) BILL**

On 8 September, the [Critical Benchmarks \(References and Administrators' Liability\) Bill](#) was introduced to Parliament, and was accompanied by [Explanatory Notes](#). The bill will support the orderly wind-down of critical benchmarks protecting both users of these benchmarks and the integrity of the UK's financial market. This bill will especially support **the effective operation of the powers granted to the FCA under the Financial Services Act 2021 to oversee the wind-down of a critical benchmark.**

## 6. MARKET NEWS

- The Reserve Bank of Australia is introducing robust fallback provisions into [eligibility criteria](#) for securities to be accepted as collateral in the Reserve Bank's market operations as of 12/01/2022.
- The Bank of Negara Malaysia [announced the launch](#) of MYOR as the new ARR for Malaysia.
- LCH published a [statement](#) in respect of LIBOR contracts denominated in CHF, EUR, GBP and JPY submitted for registration at LCH subsequent to the completion of LCH's conversion processes.
- The Asia-Pacific LMA and the Hong Kong Treasury Markets Association (TMA) jointly published a [note](#) describing various options available in the loan market to replace US dollar LIBOR.
- Clarus FT [published](#) an analysis of the RFR CCS with a SOFR leg activity on the start date.
- ISDA published its monthly [ISDA-Clarus RFR Adoption Indicator](#) for interest rate derivatives (IRD).
- LMA updated its [list](#) of RFRs referencing syndicated and bilateral loans

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

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