

IBOR Transition Newsletter

NEWSLETTER | APRIL 2020

The purpose of this newsletter is to provide the latest updates and industry developments regarding the transition from Interbank Offered Rates (IBORs) to alternative nearly risk-free rates (RFRs). In this issue, you will find summarized jurisdictional highlights from the global regulatory community, industry working groups, and various industry news sources.

INTERNATIONAL

- On April 15, 2020, ISDA [announced](#) the preliminary results of its consultation on the implementation of pre-cessation fallbacks for derivatives referenced to LIBOR.
 - ◆ The results indicate a significant majority in favor of including both pre-cessation and permanent cessation fallbacks as standard language in the amended 2006 ISDA Definitions for LIBOR and in a single protocol for including the updated definitions in legacy trades.
- A [Bloomberg Law article](#) released on April 21, 2020 discusses the Coronavirus impact on the transition and recommendations for institutions and IBOR transitions teams.
- Bloomberg published a [rulebook](#) setting out the final methodologies for the IBOR fallbacks that ISDA expects to implement for certain key IBORs via a Supplement to the 2006 ISDA Definitions and related Protocol.
 - ◆ Bloomberg and ISDA will also publish additional educational materials to help market participants understand the IBOR fallback methodologies and how they will be implemented in ISDA documentation.

UNITED STATES

- The Alternative Reference Rates Committee (ARRC) releases [recommended](#) spread adjustment methodology for cash products referencing USD LIBOR.
 - ◆ The ARRC's recommended methodology is for market participants to produce spread adjustments intended for USD LIBOR contracts that have incorporated the ARRC's recommended hardwired fallback language, or for legacy USD LIBOR contracts where a spread-adjusted SOFR can be selected as a fallback.
 - ◆ The ARRC is recommending a spread adjustment methodology based on a historical median over a five-year lookback period calculating the difference between USD LIBOR and SOFR.
 - ◆ For consumer products, the ARRC is additionally recommending a 1-year transition period to this five-year median spread adjustment methodology.
- [Fannie Mae](#) and [Freddie Mac](#) announce additional details about their adjustable-rate mortgage (ARM) products indexed to the 30-day Average SOFR.
 - ◆ Fannie Mae and Freddie Mac have confirmed eligibility, underwriting, and delivery requirements for residential SOFR-based ARMs to provide additional clarity to all stakeholders in the consumer loan market.
- The Governmental Accounting Standards Board (GASB) [issued](#) new accounting and financial reporting guidance in Statement No. 93, Replacement of Interbank Offered Rates, to assist state and local governments in the transition from IBORs to RFRs.
- The ARRC [unveiled](#) a set of [key objectives for 2020](#), which are goals and anticipated milestones to achieving market readiness and supporting the transition.
 - ◆ The ARRC advised that both the objectives and best practices are being developed with the potential impacts of COVID-19 in mind, while also noting that the end of 2021 timeframe should remain the target date for all firms to meet.
- The ARRC's Floating Rate Notes Working Group released a [statement](#) to provide market participants with information about how the New York Fed's published SOFR Index may be referenced in floating rate notes.

UNITED KINGDOM

- The Financial Conduct Authority (FCA), Bank of England (BoE), and Working Group on Sterling Risk-Free Reference Rates (RFRWG) published a [statement](#) on the impact of COVID-19 on the timeline for firms' LIBOR transition plans. The groups recognized it will not be feasible to complete the transition away from LIBOR across all new sterling LIBOR linked loans by the original target, end-Q3 2020. The following recommendations have been made:
 - ◆ By End Q3 2020 – lenders should be in a position to offer non-LIBOR linked products to their customers;
 - ◆ After end Q3 2020– clear contractual arrangements should be included in all new and re-financed LIBOR-referencing loan products;
 - ◆ End Q1 2020 – all new issuance of sterling LIBOR-referencing loan products that expire after the end of 2021 should cease.

EUROZONE

- LCH [announced](#) a 5-week extension, and the new live date for the €STR discounting environment and PAI/PAA rates will be Monday July 27, 2020. In addition, LCH advised that this decision does not affect other benchmark reform milestones such as the transition to SOFR discounting in the US market scheduled for October 19, 2020.