

IBOR Transition Newsletter

NEWSLETTER | JUNE 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 reference rates (ARRs). In this issue, you will find summarized jurisdictional highlights from the global regulatory community, industry working groups, and various industry news sources.

INTERNATIONAL

- ISDA has published a factsheet, [Understanding IBOR Benchmark Fallbacks](#), as well as a [video interview](#) with Ann Battle, Head of Benchmark Reform at ISDA, explaining why changes to fallbacks are necessary.
- The FICC Markets Standards Board (FMSB) published a [Spotlight Review paper](#) to help firms navigate conduct risks and promote fairness and effectiveness in their LIBOR transition efforts.
- ISDA and Linklaters will make new [documentation modules available](#) on ISDA Create during 2020 including the EONIA Bilateral Template Amendment Agreement. Other interest rate reform documents will be added to this module, including template provisions to accompany the IBOR fallbacks protocol, and agreements that replace the EFRR with SOFR in their bilateral credit support annexes.
- The UK has [announced](#) a solution to handle ‘tough legacy’ LIBOR contracts, which is to give the UK Financial Conduct Authority (FCA) powers via legislation to force a change in LIBOR’s methodology to allow a ‘synthetic LIBOR’ based on the new methodology to continue to be used for tough legacy exposures.
 - ◆ The publication of a ‘synthetic LIBOR’ would only occur if LIBOR is no longer representative and its representativeness will not be restored, and if publication of such a rate is considered necessary to protect consumers or the integrity of the market.
- The FSB [recognizes](#) that aspects of firms’ IBOR transition plans could be temporarily disrupted or delayed due to the COVID-19 pandemic however, the FSB calls on firms to ensure readiness to transition to alternatives before end-2021.

UNITED STATES

- The Consumer Financial Protection Bureau (CFPB) took steps to [facilitate](#) the transition away from LIBOR for consumers and regulated entities.
- The ARRC filed a [letter](#) with the Commodity Futures Trading Commission (CFTC) requesting additional relief and clarification regarding CFTC Letter 19-26.
- The U.S. Securities and Exchange Commission’s (SEC’s) Office of Compliance Inspections and Examinations (OCIE) published a [risk alert](#) related to the LIBOR transition. OCIE states in the Risk Alert that it intends to engage with “a variety of registrant types” through examinations to assess their preparations for the transition.
- [The SOFR FRN guide](#) sets out to explain how to calculate SOFR FRN coupons, including the commonly made mistakes and key considerations regarding all different structures of SOFR FRNs.
- The ARRC [decided](#) on two further technical details for its recommended spread adjustments for cash products referencing USD LIBOR. For all cash products, in a pre-cessation event, the ARRC’s recommended 5-year historical median spread adjustments will be determined at the same time as the ISDA’s spread adjustments, which will be at the time of any announcement that LIBOR will or has ceased/ become no longer representative.
- The ARRC [released](#) updated recommended contractual fallback language for USD LIBOR denominated syndicated loans. The hardwired fallback language now recommends the use of simple daily SOFR in arrears in the second step of the waterfall and includes a more permissive early opt-in trigger, which allows parties involved in the loan to switch over to an alternative rate before LIBOR is officially discontinued or determined to be unrepresentative.
- The ARRC released [recommended](#) contractual fallback language for new variable rate private student loans. The ARRC also released [conventions](#) for how market participants can use SOFR in new student loan products.
- The ARRC released a [document](#) to identify and prepare internal systems and processes for the transition. The document discusses the following categories: Product and Business Development; Trading and Brokerage; Client Servicing; Trading Risk Management; Data Management; Operations; Risk Controls; Financial Controls; Legal and Compliance; and Information Technology.

UNITED KINGDOM

- The Bank of England (BoE) plans to [publish](#) a daily compounded index for its overnight SONIA interest rate from August.
- The UK Government [intends](#) to amend the Benchmarks Regulation to give the FCA enhanced powers to manage and conduct an orderly wind-down of critical benchmarks, to tackle the challenges surrounding tough legacy contracts.

EUROZONE

- The Euro RFR WG [recommends](#) counterparties to voluntarily exchange compensation for legacy swaption contracts affected by the transition of central counterparty (CCP) discounting from EONIA to €STR (scheduled for July 27, 2020).

ASIA-PACIFIC

- The Bank of Japan (BoJ) and the Financial Services Agency (JFSA) submitted a [letter](#) to urge financial institutions to take specific actions to prepare for the cessation of LIBOR, and to submit materials allowing the BoJ and JFSA to review preparedness at individual firms.

CANADA

- The Bank of Canada is now the [administrator](#) of the Canadian Overnight Repo Rate Average (CORRA) and will post the rate using an improved methodology.