

IBOR Transition Newsletter

NEWSLETTER | JULY 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

- The Financial Stability Board (FSB) and Basel Committee on Banking Supervision (BCBS) published a [report](#) on Supervisory issues associated with benchmark transition to present to the G20.
- ISDA published a [brochure](#) that provides an overview of steps firms can take now to reduce their IBOR exposures and answers three key questions: (1) How can I reduce my exposure to LIBOR or another IBOR?; (2) what happens if I still have exposure to LIBOR/IBORs at the time it is discontinued?; and (3) what is a 'pre-cessation' fallback for LIBOR?
- Bloomberg and ISDA [announced](#) that Bloomberg Index Services Limited (BISL) has begun calculating and publishing fallbacks that ISDA intends to implement for certain IBORs.
- ISDA [launched](#) a new indicator to monitor the adoption of ARR in derivatives trading. The indicator will provide a monthly snapshot of ARR trading activity in IRD markets, based on global cleared OTC and exchange-traded derivatives data from seven central counterparties spanning six currencies.
- ISDA published a [statement](#) from its Board of Directors on adherence to the forthcoming IBOR Fallback Protocol. ISDA will soon publish the IBOR Fallback Protocol to facilitate inclusion of the new fallbacks in existing non-cleared IBOR derivatives transactions between counterparties that both adhere to the protocol.

UNITED STATES

- The ARRC released a [document](#) to identify and prepare internal systems and processes for the transition. The document broadly classifies transition activities into 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.
- The Federal Financial Institutions Examination Council ("FFIEC", which includes the OCC, Fed and FDIC) [highlighted](#) the financial, legal, operational and consumer protection risks that LIBOR cessation poses.
- The ARRC released [conventions](#) related to using SOFR in arrears, both daily simple SOFR and daily SOFR compounded in arrears, in syndicated loans.

UNITED KINGDOM

- The Bank of England (BoE) [published](#) a daily compounded index for its overnight SONIA rate from August 3, 2020.
- The Prudential Regulation Authority (PRA) issued a [statement](#) on the LIBOR transition and PRA resolution-related rules. The statement clarifies that, where the sole purpose of an amendment to a liability or a financial arrangement is to transition away from LIBOR, the amendment should not be considered a material amendment.
- The BoE Governor, Andrew Bailey, [said](#) the COVID-19 pandemic has convinced him of a need to stick to the timetable to phase out LIBOR by end 2021, and he calls on market participants to have transition plans ready.
- The BoE provided [updated dates](#) to the increase in haircuts on LIBOR-linked pre-positioned collateral:

Haircut add-on for LIBOR linked collateral:	Date:
10 percentage points	April 1, 2021 (previously October 1, 2020)
40 percentage points	September 1, 2021 (previously June 1, 2021)
100 percentage points	December 31, 2021

- Refinitiv has [launched](#) a prototype Term SONIA. The Refinitiv Term SONIA will leverage the firm's experience in administering benchmarks to create a GBP forward-looking term ARR.
- The Working Group on Sterling Risk-Free Reference Rates (RFRWG) [published](#) their [priorities and roadmap](#) for 2020-21; [Q&As](#) on the RFRWG's revised end-Q3 milestones for loan markets; and introductory educational videos and slides on the LIBOR transition.

EUROZONE

- The European Central Bank (ECB) [consultation](#) seeks industry views on whether the ECB should publish €STR compounded rates, and the parameters that should be applied. Consultation response is due Sept. 11, 2020.
- The European Commission [proposes](#) to amend the EU Benchmark Regulation (BMR) to allow EU users to continue using currency benchmarks provided outside the EU (third country benchmarks).

ASIA-PACIFIC

- The Hong Kong Exchanges and Clearing Limited (HKEx) central counterparty subsidiary, OTC Clearing Hong Kong Limited (OTC Clear) became the [first clearing house](#) to offer clearing services of Hong Kong Dollar Interest Rate Swap (IRS) contracts benchmarked to the Hong Kong Dollar Overnight Index Average (HONIA) – the ARR to HIBOR.
- The Hong Kong Monetary Authority (HKMA) [outlined](#) IBOR transition milestones for authorized institutions (AI).
 - ◆ AIs *should* be in a position to offer products referencing the ARRs to LIBOR from January 1, 2021;
 - ◆ Adequate fall-back provisions *should* be included in all newly issued LIBOR-linked contracts that will mature after 2021 from January 1, 2021; and
 - ◆ AIs *should* cease to issue new LIBOR-linked products that will mature after 2021 by June 30, 2021.
- ASIFMA (Asia Securities Industry and Financial Markets Association) published an [IBOR Transition Guide for Asia](#).
- Singapore has issued a [consultation](#) to phase out the publication of SIBOR within 3-4 years (est. 2024), to fully transition to the Singapore overnight rate average (SORA). Consultation response is due Sept. 30, 2020.