

IBOR Transition Newsletter

NEWSLETTER | MAY 2021

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 Conduct Authority (FCA) wants banks to [speed up](#) to new interest rate benchmarks that replace LIBOR.
 - ◆ The FCA will allow a “synthetic” version of LIBOR to continue after December 2021, but it will only apply for a limited period and pertain to sterling and yen LIBOR contracts.
- The Bank of England (BoE) published a [consultation paper](#) proposing to modify the scope of contracts subject to the derivatives clearing obligation in order to reflect ongoing reforms to interest rate benchmarks. BoE proposes to implement modifications to contract types subject to the clearing obligation by:
 - ◆ Removing, on October 18, 2021, the contract type referencing EONIA from the OIS class and replacing it with the contract type in the OIS class referencing €STR with an original maturity of 7 days to 3 years.
 - ◆ Removing, on December 6, 2021, the contract type referencing JPY LIBOR from the Basis Swaps and Fixed-to-float interest rate swaps classes.
 - ◆ Removing, on December 20, 2021, the contract type referencing GBP LIBOR from the Basis Swaps, Fixed-to-float interest rate swaps and Forward Rate agreements classes and replacing it with the contract type in the OIS class referencing SONIA with an amended original maturity range of 7 days to 50 years.

UNITED STATES

- The ARRC [published](#) a set of market indicators that it will consider in recommending a forward-looking SOFR term rate.
- SOFR Academy published a set of [Frequently Asked Questions](#) on the Across-the-Curve Credit Spread (AXI).
 - ◆ AXI reflects broader credit conditions by accessing actual bank funding transactions further out the yield curve. One of the key features of AXI is that it automatically changes to bank funding issuance patterns over time, thereby ensuring the sustainability of its robustness into the future.
- The ARRC released the [Guide to Published SOFR Averages](#) in order to provide market participants – and nonfinancial corporates – with key information on how the published SOFR Averages can be used today and what factors market participants should consider before selecting an alternative rate.
- The ARRC [announced](#) it selected CME Group as the administrator that it plans to recommend for a forward-looking SOFR term rate, once market indicators for the term rate are met.
- The CME Group [announced](#) it will launch interest rate futures based on the Bloomberg Short-Term Bank Yield Index (BSBY). These new contracts will be available for trading in Q3, with OTC clearing of BSBY swaps introduced in Q4, pending regulatory review.
- The CFTC’s Market Risk Advisory Committee’s Interest Rate Benchmark Reform Subcommittee voted to [recommend](#) a market best practice for switching interdealer trading conventions from LIBOR to SOFR for USD linear interest rate swaps.
 - ◆ The Subcommittee recommends that on July 26, 2021 and thereafter, interdealer brokers replace trading of LIBOR linear swaps with trading of SOFR linear swaps.

UNITED KINGDOM

- The FCA and BoE published a [joint statement](#) encouraging market users and liquidity providers in the Sterling exchange traded derivatives market to switch the default traded instrument to SONIA instead of LIBOR from June 17, 2021. The switch intends to facilitate a further shift in market liquidity toward SONIA.
 - ◆ The FCA and BoE encourages all participants in the Sterling exchange traded derivatives market to take the steps necessary to prepare for and implement the changes to standard trading conventions on June 17, 2021.
- The Working Group on Sterling Risk-Free Reference Rates issued a statement [recommending](#) the use of overnight SONIA, compounded in arrears, as the successor rate to replace GBP LIBOR for the purposes of the operation of fallbacks in bond documentation that envisage the selection of a recommended successor rate.
- The FCA published a [consultation](#) on their proposed policy framework for exercising two of its new powers under the UK Benchmarks Regulation (BMR).
 - ◆ The powers are part of a wider package of amendments to the BMR intended to ensure that there is appropriate regulatory powers to help reduce risk in the wind-down period before LIBOR ceases permanently.

EUROPE

- The working group on Euro risk-free rates published their [recommendations](#) on events that would trigger fallbacks in EURIBOR-related contracts and €STR-based EURIBOR fallback rates.
 - ◆ The recommendations aim to provide guidance to market participants and to represent the prevailing market consensus on EURIBOR fallback trigger events and €STR-based fallback rates, which market participants may wish to consider in their contracts.
 - ◆ Additionally, the working group informed there are currently no plans to discontinue EURIBOR.