

# IBOR Transition Newsletter

NEWSLETTER | JULY 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 Stability Board (FSB) published a [progress report](#) to the G20 on LIBOR transition and remaining issues.
  - ◆ The FSB [encourages](#) authorities to set globally consistent expectations and milestones that firms will rapidly cease new use of LIBOR, regardless of where those trades are booked or in which currency they are denominated.
- Effective [August 22, 2021](#), for trade date Monday, August 23, 2021, and pending all relevant Commodity Futures Trading Commission (CFTC) regulatory review periods, the CME Group will list the Three Month Bloomberg Short-Term Bank Yield Index (BSBY) Futures contract for trading on the CME Globex electronic trading platform.
  - ◆ Following this development the CME Group intends to support [cleared swaps](#) indexed to BSBY in the 4th quarter of 2021.
- At the end of this year, 30 LIBOR settings will either cease or become non-representative. While some USD LIBOR settings will continue until mid-2023, multiple regulators have said they will restrict new use of USD LIBOR from the end of 2021, except in limited circumstances.
  - ◆ So far, more than 14,300 entities across nearly 90 jurisdictions have adhered to ISDA's IBOR Fallbacks Protocol, which allows firms to incorporate the fallbacks into existing non-cleared derivatives.
  - ◆ [ISDA expects](#) the proportion of ARR-linked trades will continue to increase in the months leading up to the end-2021 deadline.
- ISDA has launched a new [microsite](#), developed in coordination with The Brattle Group, providing information about key IBOR fallbacks. The microsite provides information about adoption rates for the ISDA 2020 IBOR Fallbacks Protocol and graphs comparing LIBOR and fallback rates.

## UNITED STATES

- The Commodity Futures Trading Commission's (CFTC's) Market Risk Advisory Committee (MRAC) adopted a market best practice known as [SOFR First](#).
  - ◆ SOFR First is a phased initiative for switching trading conventions from LIBOR to the SOFR for USD linear interest rate swaps, cross currency swaps, non-linear derivatives and exchange traded derivatives.
  - ◆ SOFR First was designed to help market participants decrease reliance on USD LIBOR.
- The CFTC's Market Participants Division and Division of Market Oversight (Divisions) jointly issued a [statement](#) to advise market participants and swap execution facilities (SEFs) of the importance of ensuring a smooth and timely transition away from LIBOR.
  - ◆ The Divisions' staff believe that continued reliance on LIBOR benchmarks poses risks to the stability and integrity of these markets and consumer protection.
  - ◆ Market participants and SEFs themselves may also face financial, conduct, litigation, operational, and reputational risks associated with inadequate preparation.
- The ARRC is announcing [conventions](#) and [use cases](#) for how best to employ the SOFR Term Rates to successfully transition away from USD LIBOR.
  - ◆ The SOFR Term Rates will be especially helpful for the business loans market - particularly multi-lender facilities, middle market loans, and trade finance loans—where transitioning from LIBOR to an overnight rate has been difficult.
- The ARRC has [endorsed](#) the CFTC MRAC recommendation that interdealer trading conventions for cross-currency basis swaps between U.S. dollar, Japanese yen, sterling, and Swiss franc LIBOR move to each currency's risk-free rate (RFR) as of September 21, 2021.
- The ARRC [welcomes](#) the July 26<sup>th</sup> convention switch recommending inter-dealer brokers change USD linear swap trading from USD LIBOR to SOFR.
- SIFMA sent a [letter](#) to House Financial Services Committee Chairwoman Maxine Waters and Ranking Member Patrick McHenry expressing support for the Committee passing H.R. 4616, the Adjustable Interest Rate (LIBOR) Act.
- The ARRC [announced](#) it is now formally recommending CME Group's forward-looking SOFR term rates, following the completion of a key change in interdealer trading conventions on July 26, 2021 under the SOFR First initiative.

## UNITED KINGDOM

- The FCA and Bank of England are [encouraging](#) all participants in the LIBOR cross-currency swaps market to take the steps necessary to prepare for and implement these changes to market conventions on September 21.

## EUROPE

- The Swiss Financial Market Supervisory Authority FINMA [published](#) further guidance on the replacement of LIBOR by the end of 2021.